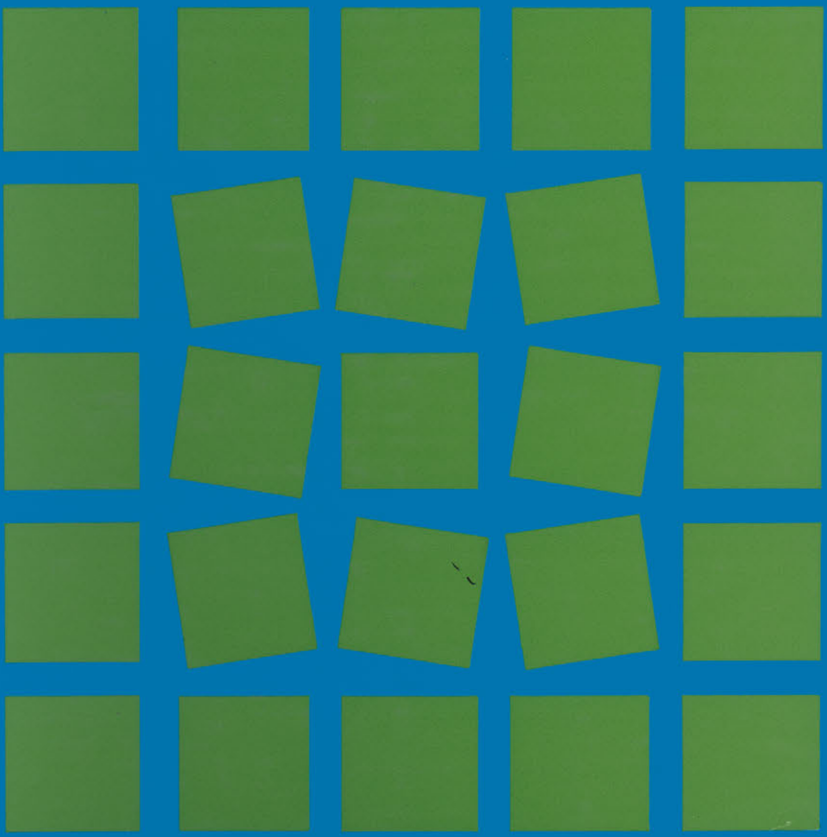
Brand Management

Planning and control

J. R. Bureau

Macmillan Studies in Marketing Management



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BRAND MANAGEMENT

MACMILLAN STUDIES IN MARKETING MANAGEMENT

General Editor: Professor Michael J. Baker
University of Strathclyde

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PLANNING AND CONTROL

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J.R.B.

Introduction

The successful business enterprise seeks to master the environment in which it chooses to operate. Its mastery is rarely complete. Even the most sophisticated organisations find themselves subjected to unexpected periods of strain and uncertainty. Their determination to remain on a chosen course may be severely tested. The systems they employ and the people recruited to implement the systems may be profoundly shaken. Revenue declines, progress halts, profits and confidence are reduced.

The underlying thesis of this book is that, even *with* intelligent and conscientious marketing planning, the path of the business enterprise is frequently thorny, hazardous and unpredictable; without it it is always more chaotic, frequently disastrous and occasionally terminal.

All companies plan, more or less. Casually or systematically, continuously or sporadically, comprehensively or patchily. Even the narrowest and most limited experience of running a business organisation produces an instant recognition of the importance of planning. If nothing else, planning helps to insulate the mind from the traumas of too many unexpected setbacks. And, when setbacks do occur, planning systems provide a framework for their solution, a foundation on which order can be reconstructed from chaos.

Subject only to the important proviso that planning, like any other virtue, may itself become the means to generate inertia, conservatism and incompetence, very few successful organisations question its value, and most are securely founded on its benefits.

Inevitably there are an infinite number of variations in the planning techniques, styles and formats adopted by a group as heterogeneous as that of the business community. Despite such variations, there are ways of categorising planning needs and systems which serve to underlie certain constants essential to the planning function. One such categorisation is that which differentiates between long-term and short-term planning requirements.

Strategic planning, concerned with the *long-term* success of the business operation, is a discipline which seeks to regulate the general direction to be taken by the enterprise. Strategy concerns itself with an organisation's purpose, mission, broad goals, primary objectives. The determination of such strategy is always seen as a primary responsibility of the organisation's most senior management: the Chairman, the Managing Director, the members of the Board. Strategy takes note of, but is not primarily dominated by, the next year or two in the life of the organisation. It seeks, instead, to look steadfastly at a more distant horizon – three or five, or ten or even twenty years ahead – in order to shape the organisation's future.

Operational planning, on the other hand, is concerned to determine the *short-term* competence of the business enterprise. It will seek to outline the activities required to achieve immediate goals: those which require to be reached in the next three, six, twelve or eighteen months.

Strategic planning will always affect operational planning: logic suggests that operational planning must rationally be a reflection of strategy. If responsibility for strategic planning tends to lie with senior management, operational planning will be the responsibility, and reflect the competence, of the organisation's senior, middle and – frequently – junior management.

Boths forms of planning – strategic and operational – are a necessary prerequisite to an effective *marketing function*, as they are to the efficiency of all the major activities and departments within the business organisation. Using the terms as defined, it follows that:

1. The *strategic marketing plan* is that element of the over-all organisational strategic plan which will determine the activities required to achieve the *long-term marketing goals of the organisation.*
2. The *operational marketing plan* is that element of the over-all organisational operational plan concerned to

determine the activities required to reach the *short-term marketing goals* of the organisation.

This book is primarily concerned with operational marketing planning, particularly as it applies to consumer-goods companies, though many of its principles may be applied to industrial-goods companies. This concern with operational rather than strategic planning is partly due to the fact that texts on strategy abound, while those on operational planning do not. For the student wishing to start with strategy – as he should – he is recommended to read any of a number of recognised authorities on the subject: perhaps H. I. Ansoff's *Corporate Strategy*, or J. Argenti's *Systematic Corporate Planning.*

While this book is concerned to outline the scope and objectives of operational marketing planning, such planning systems are not, of course, ends in themselves. A plan, *per se*, is simply an inert set of good intentions until action is taken to execute its recommendations. Such actions can only be successfully related to planning if they are measured and controlled, and their achievements related back to the initiating plan. Hence the emphasis in the second part of this book on control systems which serve to bring meaning to planning.

The book assumes that the reader is already well versed in all the basic concepts which underlie the structure of marketing within the business organisation, e.g. the functions of advertising, packaging, selling, distribution, pricing, etc. Its primary objective is to outline, through an examination of operational planning and control, the way the marketing-planning function welds together each of these separate areas of marketing knowledge and experience into a unified whole, aimed at maximising organisational resources, in the process of achieving organisational goals.

Part One

Operational Planning

'An organisation without a plan is like a boat with no chart, no compass, no sextant, no sounding equipment; if it reaches its goal of safe harbour it's by pure luck.'

Fox and Wheatley, *Modern Marketing*

Chapter 1

The Brand Manager

THE ROLE OF THE BRAND MANAGER

Consumer-goods companies which seek to use the marketing planning and control systems described in this book generally make use of the management system called 'brand management' to ensure that such activities are efficiently carried out. While the title of *brand manager* – also referred to as a *product manager* – may not conjure up any precise idea of its activities and responsibilities, the role is so central to the systems about to be described that it is essential to remove any uncertainties which may surround the concept, showing clearly what it is, and how it may be incorporated into the *marketing function* of the business organisation.

Viewed in the simplest possible way, the brand manager's function is *to plan and control the achievement of revenue from one or a limited number of brands* (products or services) from the company's total range of market offerings. Three elements here are of key importance:

1. *'Plan and Control'*

The brand manager 'makes' nothing, sells nothing, buys no raw materials, creates no advertising. He is hired specifically on the basis that, being uninvolved in administering and controlling the 'doing' functions of the company, and of the people who do it, he may bend all his energies to planning and controlling the execution of those plans. The creation of the brand manager concept rests first and foremost on the belief that planning the revenue-earning competence of a product in the market-place is vital to the company and is a full-time rather than a part-time job.

2. *'Revenue'*

To any company, the vital nature of revenue is self-evident. If revenue is the money a company earns from selling its products, then, clearly, upward and downward changes in such revenue can, in the long term, make or break the company. Hence revenue needs to be planned. Planning *expenditure* has always been recognised by companies as of fundamental importance to the health of its financial status. The recruitment of managers hired exclusively to mastermind the achievement of the *revenue* that enables all company expenditures to be paid is a practical recognition of the obvious dominance of revenue-earning as a means of ensuring survival.

3. *'One or a limited number of brands'*

As the range of products offered in the market-place by any one company grows, so do the problems in planning its revenue-earning competence. It is only possible to plan the success of a company's product-range in the market-place *product by product.* At any one time, in any one market, each product will have more or less different problems and different opportunities across the whole spectrum of marketing decision areas: product formulation, pricing, packaging, advertising, distribution, etc. No two products are the same, fulfil an identical need, behave in the same way. Each requires to have its problems solved individually. However desirable it may seem, one managing director or one planning committee of senior company personnel cannot hope to cope effectively with the diversity of marketing problems requiring solution. They do not have the time, even if they have the expertise and the desire, to produce marketing plans.

Because of the singularity of each product, there must be a multiplicity of brand managers to handle them. All other things being equal, the fewer products each brand manager has to handle, the more effective are his marketing plans likely to be.

RESPONSIBILITIES

The simple definition of a brand manager, as someone who 'plans and controls the achievement of revenue' may suggest that such a role is solely financial. It is not.

While the revenue element is probably a major criterion of effectiveness in judging the work of the brand manager, his activities and responsibilities range as widely as those factors within the market-place which *lead to revenue-earning*: product, price, promotion and place. The full scope of the brand manager's activities forms the major bulk of the pages to follow and cannot easily be summarised. Nevertheless, it is possible to give some indication of his activities by summarising the roles the brand manager is required to fulfil.

1. *Market Analyst*

The brand manager is expected to synthesise all available market data concerning his products into a coherent, logical picture of their strengths and weaknesses, their problems and their opportunities. As he is expected to recommend a clear course to be taken by his products in the market-place, he more than anyone else will want to know as much as possible about the hazards that may be encountered on the way, and of the indicators of success which might show that his products are likely to achieve a fruitful goal. For this he requires data, and the ability to analyse them effectively and creatively.

2. *Planner*

The brand manager's primary role. The company requires, for each of its products, a clear marketing path ahead, based on a clear set of objectives and a programme of future activity which will provide the maximum chance of achieving such objectives.

3. *Co-ordinator*

Once the plan has been agreed, logic dictates that the plan-maker should be given the responsibility for its enactment. Having no direct authority over those individuals or departments who will need to take action in order to meet the plan's requirements, the brand manager will need to work through persuasion and co-ordination if his plan is to be implemented. If his roles as market analyst and marketing planner make the greatest demands on his intellectual and creative abilities, the brand manager's role as co-ordinator will make the greatest demand on his capacity for leadership and motivation. He will be spurred in this capacity by the thought that nobody within the organisation will care more than he does that the marketing goals are achieved, and that no one in the organisation is likely to be as well informed as he is as to the totality of the problems to be overcome before such goals are attained.

4. *Controller*

Of all the plans created within a business organisation few will be more vital than the product marketing plans, and none will be as speculative. Ultimately, all marketing plans are an attempt to predict buyer responses to a set of planned stimuli: 'As a result of this product, in this pack, at this price, supported by this distribution and selling strategy, backed by this promotional programme, bearing in mind this forecast of competitive activity, we believe our product will be bought in this quantity over the next twelve months. . .'

The only way to cope with the high probability of a wrong forecast somewhere among such a list of hypotheses is for the brand manager to monitor a continuous stream of information, measuring the day-to-day market response to the marketing plan once it gets under way. His ability to monitor progress is crucial for the eventual success of the product in the market-place. Such monitoring enables him to re-think and re-plan quickly in the event of any faltering by the product in achieving its marketing objectives.

THE BRAND MANAGER AND THE COMPANY

Within the organisation which uses the brand manager concept it must be very clear that such a function will be located within the Marketing Department. The structural systems incorporating brand managers within different companies will of course vary as widely as any other structural systems for other business functions. Where only two or three brand managers are employed, they may be structured to report directly to the head of the marketing function. More usually, the multiplicity of brand managers employed – six or more for most major consumer-goods companies – requires that there be an intermediary position between the brand managers and the head of marketing. As the marketing director will already have a number of chiefs reporting to him – the general sales manager, the distribution manager, the market research manager, for example – good management practice will require that a limit be placed on the number of personnel having direct access to his office. Hence brand managers are frequently grouped under marketing managers (group brand managers, as they are sometimes called), whose task it is to co-ordinate their activities and provide guidance, as surrogates for the marketing director. Such groups may be fairly arbitrary, combined for administrative convenience only, or they may result from demarcation lines which are natural to the business organisation of which they form a part: should the organisation operate in two or more clearly different markets, or operate with two or more sales forces which serve different types of customers – for example, industrial customers and retail customers – then the 'marketing groups' of brand managers will tend to reflect such activity groupings within the company.

Generally speaking, the brand manager is a 'loner', having perhaps an assistant to help him in his work but otherwise having no others reporting to him. The brand manager's isolation from the responsibilities of having to manage a department should not be taken to mean isolation in any other sense: it is already clear that he will have a considerable number of contact points within the total organisation if he is to achieve any success with his designated task. In fact, many organisations employing brand managers have come to realise that there are positive advantages in formally linking other company functions to that of the brand manager, in order to provide him officially with a full range of technical expertise which he cannot himself be expected to have in his co-ordinative, jack-of-all-trades role. Within a company that truly accepts the value of his marketing-planning, revenue-planning role, the brand manager will of course receive the fullest co-operation from other organisational functions. Despite this, it may be risky to expect the level of co-operation he obtains to be dependent on the expressed wishes of the company's top management, and on the competence of the individual brand manager in motivating, persuading and leading. For this reason many companies have established formal links directly with the brand manager structure they employ:

1. *Advertising Services*

Companies which spend very large sums of money on advertising their products, employing several advertising agencies, may set up – within the marketing department – a small team of experts with the task of providing data and guidance on all advertising matters to those brand managers employing advertising as one of their promotional weapons. Specific members of such a team may be allocated to provide specific contact points with individual brand managers.

2. *Marketing Research*

In exactly the same way the marketing-research function of the organisation may allocate research specialists to particular brand managers, to help them in their routine and special research requirements.

3. *Trade Promotions*

The necessity for close liaison between the planning and sales branches of the marketing function will become evident throughout the rest of this book. In particular, close liaison is required in setting up promotional schemes with organisational customers – in consumer-goods companies, with wholesalers and retailers. These are frequently jointly planned between the brand manager and a sales manager nominated to specialise in this work.

4. *Production Planning*

Once again close liaison is required between the manufacturing/distribution function and the brand manager. And, once again, specific individuals may be nominated by their departments to work with specific brand managers, in order to ensure a smooth and continuous flow of product from the factory to the retail outlet.

5. *Financial Control*

Concerned as he is to manage the revenue and profitability of the products for which he has responsibility, the brand manager will need the professional services of the organisation's financial department: to help him monitor and control the effects of product costs, prices and marketing expenditures, to provide him with help in calculating long-term estimates of alternative marketing strategies on revenue and profits, to enable him to remain within the financial bounds laid down by the organisation as to its required financial returns. In this he will be helped by a specific individual from the financial function nominated to work with him on his products.

Apart from this wide range of help he may obtain from within the company, the brand manager also has the help of a number of agencies external to the company who will provide him with their skill, experience and vested interest in the success of his activities: advertising agency, design agency, public-relations consultants and sales-promotion agencies, for example.

CONTROL OF THE MARKETING-PLANNING FUNCTION

It is a traditional hallmark of a competent business organisation that extensive use is made of delegated responsibility. In most companies, for example, the Marketing Department will be left to its own devices in such matters as the deployment of the sales force, the spending of the marketing-research budget or the number and location of distribution depots. Senior company management will of course exert ultimate control over all activities through its control of all company expenditures, but such a limitation does not invalidate the very real delegation which takes place.

Major marketing planning decisions, however, do not generally come into this area of top-management delegation. All but minor changes to products and marketing plans will require to be approved by the organisation's senior management, who will reserve to themselves the right of veto, and of changing the recommendations.

The reasons are not hard to find. Most product planning decisions are taken in the belief that they will have some effect on the product in the market-place. Such decisions, based as they are on a forecast of buyer response, are highly speculative. Should the forecast fail, the resultant damage to the product – and, hence, to company revenue – is also uncertain, but, inevitably, undesirable. Every marketing decision puts some part of corporate revenue at hazard, unlike many other decisions made by other company functions.

Hence marketing planning – and thus brand managers – necessarily work under the constant constraint of top management's beady eye. For marketing planning to work at all efficiently it requires that it be seen by top management to work with competence and provable success in the market-place. It is this element, above all, which provides at once the greatest stimulus to and the greatest pressure on, the marketing-planning function.

Chapter 2

Operational Planning Needs

While some business organisations may be indifferent, and even hostile, to the needs of long-term strategic planning, the great majority of such organisations consider it axiomatic that they require short-term operational plans.

The degree of variation in the quality and extensiveness of such planning from company to company is, of course, immense. For some the development of a simple forecast of marketing sales is virtually the sum total of the operational marketing plan. Once this forecast has been obtained (usually from the sales manager), the organisation sets about planning how it may best produce that which the forecast indicates will be sold. For other organisations the operational plan will involve meticulous and detailed planning by virtually all the departments of the organisation, reviewing, analysing and formally agreeing all of the activities planned for the following year, culminating in a closely argued, clear-cut action document which becomes the blue-print for the achievement of a successful new year ahead.

Organisational operating plans normally cover a time period of one year. While a strong case can be made that such a fixed time period may be both irrelevant and occasionally harmful to the needs of the organisation, it is based on the need to report regularly to the shareholders. Also, value is obtained in judging the competence of the organisation through being able to compare its progress in one time period with that in an identical time period – year-to-year comparisons – giving support to the tradition that has grown over the years for planning over fairly rigid time periods.

Regardless of the planning problems that may thereby be generated, most organisations will plan their activities for the period of time which coincides with their financial reporting year.

The concept of the *annual operating plan* as a blue-print for decision and action in the organisation's financial year gives the impression of much greater rigidity of business behaviour than is, in practice, the case. The company that produces the formal annual operating plan may indulge in a once-a-year feast of reappraisal and review and emerge with firm plans, but the firmness of the plans should not conceal an equal firmness in jettisoning such plans if the exigencies of the forecasted year turn out to be different from expectation. In practice, few sane organisations plough on inexorably with the original plan once circumstances in the market-place dictate the need for a change. In that sense all organisations plan all through the year, on a day-to-day, week-to-week basis, and unhesitatingly reject previous plans, formal or informal, if needs require.

Such a 'flexibility' may be considered as casting doubt on the value of the once-a-year plan: Is such a plan, in fact, simply an emanation of the tendency in all major organisations to move bureaucratically towards systems and control mechanisms which enable the masters to keep the reins of power in their hands? Is it, alternatively, and more prosaically, to satisfy the needs of managers obsessed with tidyness and order regardless of their commercial value? Do annual plans have any real value, or do they serve to spread responsibility for decision-taking so widely that no one may feel failure is attributable to any one individual?

Inevitably some or all of these reasons serve to provide the real driving-force behind a fetish for annual plans in numerous organisations; there is no human virtue that may not be debased to a vice.

For the majority of organisations who exercise their talents to the production of annual operating plans, the need for such plans are clear cut and widely felt:

Sychronisation of Departmental Plans

While the communication process between different company functions should be continuous and effective in a competent organisation, experience indicates that the larger the organisation, and the more complex its activities, the less likely it is that such a general principle – maintaining good informal inter-function communications – will provide a reliable substitute for formal planning. As departments grow in size and number, the sheer scale of informal communication as a process becomes too great even for those determined to maintain it. Furthermore, as the organisation grows, it will inevitably recruit a wider variety of personnel with widely differing abilities and attitudes towards informal communication processes.

Growing Complexity in Organisational Control

The formal annual plan also enables the senior management of the organisation to standardise and systematise its means of reviewing and controlling the activities for which it holds ultimate – often legal – responsibility. Formal planning systems allow for greater decentralisation of responsibility in the large, multi-division and multi-national company: if there exists only informal planning, there must inevitably be more frequent involvement and interference by the central controlling Board in its determination to keep abreast of developments within each of its divisions and subsidiaries. An annual operating plan gives instead a chance for such subsidiaries to present themselves once a year for agreement and approval of their activities in the coming year.

Departmental Time-Span Decision Requirements

Most business organisations of any complexity are bedevilled by the fact that some of their functions – research and development, and engineering, for example – may well require firm plans from other functions twelve months or more before plans can come to fruition: the time required to specify, order and receive delivery of even fairly simple machinery in the manufacturing area is frequently as long or longer than this. Other departments, however – marketing, personnel – may be able to ennact new plans in a few weeks or months. The need to plan requires that such differences be taken into account. Formal annual planning ensures that such problems are more routinely solved.

The Priority of Short-Term Problems

In the same way that a review of the organisation's strategic – long-term – requirements will always be put aside by company managers on the grounds that they require urgently to solve more urgent problems, so the need for an annual review and plans for the next year will equally be put aside on the basis of urgent day-to-day problem-solving needs. Experience indicates that unless a system is set up which rigorously requires a formal plan for the forthcoming year, many managers will happily work on the basis of planning on a much shorter time scale. If there is a failure to plan for the next five years, the organisation may suffer badly in times of hardship; if it fails to plan for the next year it may well suffer disastrously, and it may find itself totally incapable of meeting any long-term objectives at all.

The Need for Creative Solutions

However much a manager feels he can ill-afford the time required to produce a formal operating plan for his department against the pressing urgency of his day-to-day problems, the process of finding the time, and carrying out the review and analysis required to produce the plan, very often produces a fresh insight and a quite new and creative solution to existing problems in a way that is different from any solution that may emerge as a by-product of the daily round of problem-solving. In an ideal situation the formal Annual Plan enforces the 'thinking time' that most managers grieve they never have. Systematised annual planning enforces a period of reappraisal by the whole company at least once a year. Therein lies its major strength.

In a major national or international organisation the format of the Annual Operating Plan may be systematised by the demand that each of the separate operating companies or divisions within the organisation produce 'The Plan' in the form of a standardised document. This has the disadvantage that whatever format is adopted may well be more relevant to some of the subsidiary operations than to others. It has the advantage of enabling the reviewing bodies – a Group Board of Directors, for example – to grasp more quickly and easily the problems of the individual subsidiaries, and also make more direct and meaningful comparisons between the subsidiaries. It also ensures that all areas of planning which require agreement are covered in the presentation made by each of the organisation's subsidiaries.

The problem of the format to be adopted in the construction of an annual operating plan is of little interest here except to highlight three further elements of value in the system of formal annual planning:

The Annual Plan as an Approval Document

Operational plans not only recommend a course of action for the organisation for the next fiscal year but they do so by very clearly elaborating both *the policy* and *the cost* of expediting such a policy. Both are sufficiently central to the continuing health of the organisation to warrant its formal approval. Once agreed, the annual operating plan provides top management – and all other company managers – with a clear agreement of *revenues* to be obtained (what the organisational income will be from the sales it will make) and of *expenditures* (everything that the organisation will spend in the process of achieving its forcasted revenue).

The Annual Plan as an Objectives Document

If the annual operating plan is an activity which serves to document the approved and agreed revenue and expenditure targets for the following year, it follows naturally that such approvals serve as objectives to be achieved by the company and, therefore, by the individuals who are vested with the responsibility of ensuring that each element is achieved. For an organisation using a system of personnel motivation and measurement by objectives, the major business objectives for many of the managers will be found within the annual operating plan.

The Annual Plan as an Industrial Relations Document

Finally, the annual operating plan provides the management of the operation with a review of aims and targets which may well serve as a communications brief in disseminating company information internally to all members of the organisation. With the increasing recognition that all members of a company have a personal and vested interest in the direction and success it achieves, an annual reappraisal and the resultant plan will provide a coherent platform on which to build good relations across the spectrum of employees, by keeping them more informed, and more secure in the belief that their career-course is being skilfully and logically plotted.

Chapter 3

The Operational Marketing Plan

THE PRIMACY OF THE PLAN

The organisation's annual operating plan will result from combining the plans of many separate organisational functions of which marketing is only one. In this sense the *annual marketing plan* is simply one among many, combining with an annual manufacturing plan, an annual research and development plan and many others to produce the over-all operating plan.

In a number of ways, however, the marketing plan is different from those of the other organisational functions.

1. *Revenue Source*

The annual marketing plan is responsible for blue-printing the manner in which the organisation will earn its revenue. Whether such a plan is simple or elaborate, the marketing plan, in the end, boils down to a statement of the revenue (income) which is forecast to accrue to the organisation from the planned marketing of its products or services over the time period of the plan. The primacy of revenue to any business organisation is self-evident: without revenue there can be no long-term business, only the accrual of bills.

In an organisation where the marketing function is responsible for determining revenue, the annual marketing plan determines the life-blood of the organisation. Hence, in operational planning, the primacy of the marketing plan. Boyd and Massy

(1972) make this point very clearly:

> In spite of the interdependency of strategies [of all functional areas in the business], a strong case can be made for using the market place and the marketing plan as the anchor points for the planning process. Since marketing deals with the external environment of the firm, and sales and profits are generated through the interaction of the firm and this environment it is not unreasonable to think of and to evaluate the activities of each of the firm's organisational units (e.g. engineering, product and finance) in terms of how they contribute to the firm's ability to generate sales.

Looked at from a more negative point of view, a failure of achievement of the aims of the marketing plan may result in a shortfall to the organisation of its required revenue. Such a shortfall may require a cut in the organisation's expenditures, the possible loss of employment for a proportion of employees, greater difficulty in meeting long-term aims scheduled for the years to follow, the loss of shareholder goodwill and stock-market status, a weakening of the ability to sell to the market in the face of declining brand shares, and a host of other problems. A shortfall in achieving the aims of the operating plans of the other organisational functions less frequently results in such severe or widespread repercussions within the organisation.

While the successful achievement of the aims of all the other functions within the organisation is of course crucial both to the organisation and to the marketing function, none of these other functions – manufacturing, finance, purchasing, etc. – are directly responsible for planning and raising revenue; they may best contribute by reducing their consumption of the revenue obtained, by maximising efficiency and minimising expenditure. Marketing can only succeed by the creation of that revenue.

2. *Chronological Priority*

Where an organisation has determined that it will produce a formal annual operating plan, it will soon become evident that the plans required from many of the organisation's functions cannot be started without first having a clear indication of the organisation's marketing intentions. The manufacturing function will have little idea as to how it might best plan the year ahead until it knows the products it will be expected to produce, the time at which they will be needed, the quantities that will be required at those times and a variety of other elements largely determined by the marketing plan. Similarly, the planning of the flow of materials and labour – incorporated in the operating plans of the purchasing and personnel functions – will be uncertain until the manufacturing plan is resolved. In most such organisations the annual marketing plan will need to be the first to be produced and agreed, in order that the plans of the other functions may be realistically related to the marketing policy which so affects them.

3. *Plan Approval*

Inasmuch as it is reasonable to consider marketing as the last area of organisational responsibility willingly delegated by those charged with the management of the organisation, so the annual marketing plan will probably be needed to be argued in greater detail, and its recommendations supported more cogently and with greater logical justification, than the plans of any other function in the organisation. For this there are a number of reasons:

(a) At the risk of being repetitious, *the crucial importance of marketing* to the health of the company.

(b) The fact that *marketing decisions almost invariably affect* – and are planned to do so – *the consuming public* on whose continued goodwill the organisation depends. The majority of decisions in other functional areas frequently have little or no direct effect on the consuming public, and may be reversed without undue harm.

(c) The particular vulnerability to risk in the organisation's marketing decisions: a £1 million decision to buy machinery may be closely supported with a quite reliable measure of the benefits to the organisation of such an investment, whereas a £1 million decision to launch a new product or a new advertising campaign is full of hazard and uncertainty, rarely supported by an equally certain measure of its investment value. This is made clear by John Winkler (1972):

> People's behaviour is amongst the most difficult of all subjects to analyse and predict. And, since marketing is about behaviour, it follows that marketing decisions must be amongst the hardest in business . . . The effectiveness of other functional plans, however, depends for success on the accuracy of the marketing plan. In many companies, if the sales deviate from forecast by only a fraction then any production efficiencies become meaningless when measured against the disruption cost . . . all their plans, then, are derived from the assumption that the marketing plan is accurate. And that, as we say, is the one plan which is most difficult to produce with confidence.

It is for these reasons that the body approving functional operating plans may require a relatively modest level of documentary justification of sizeable investments in, say, the production department, while it will insist on a very exhaustive detailing of most marketing recommendations.

OBJECTIVES OF THE OPERATING MARKETING PLAN

Setting the Objectives

On the assumption that the organisation setting out to create an operational plan has previously determined a long-range strategic plan, the *broad* objectives for the operational plan will have already been decided: the first-year targets enshrined in the strategic plan automatically become the over-all objectives for the next annual operating plan. If the strategic plan has been properly administered, then it will contain at least the total revenue requirements for each year, as well as the profit level required. If such targets have been set at a compromise between ambition and realism, and resulted in figures which the marketing function, as well as the rest of the company, considered were achievable, such targets will serve as objectives for the annual operating marketing plan.

Arguments about whether annual objectives should be set by top management and handed down to line managers, or should rise from such managers and be accepted by top managers, are, in practice, irrelevant. *Achievable objectives* are nearly always a compromise between the two interested groups. When they are set, unachievable objectives – not unknown in the business world – are recognised in an organisation for what they are: fairy stories. They simply serve to bring planning into disrepute and to negate its validity. This serves to underpin the most valuable of all marketing-planning axioms: marketing plans should subserve all pressures to the pressures of the market-place. The determination for a company to be successful, to achieve high status in the market-place, to placate shareholders with fat profits and to fulfil individual company managers' ambitions for promotion and power, are poor substitutes for the cold analysis of what is possible in the market-place and the creative determination to maximise all such possibilities. An over-optimistic marketing planner is a greater menace to the organisation than a timorous pessimist – though neither is likely to provide many benefits to the organisation employing them.

BASIC STRUCTURE OF THE PLAN

While the broad objectives of revenue and profits will be known and agreed in principle from the strategic plan, the marketing function avoids the pitfalls of shaping marketing activity to meet pre-ordained objectives. In practice, this hazard is avoided by the process that is employed in putting together an operating marketing plan: each separate element in the organisation's operations – each product or brand, each distinctively separate market segment – is examined separately and planned separately, usually by separate brand or market managers held responsible for their control, and their separate plans will contain the best forecast of the likely success of these products or market segments. It is not until all these individual product plans are combined together that a clear picture emerges as to the total likely revenue and profits available to the organisations, and as to the likelihood of the marketing plans meeting the objectives laid down in the strategic plan. Such detailed planning activity is not, of course, undertaken in compiling the *strategic* plan. The amount of work required to pull together detailed planning covering the next five or ten years, product by product, market segment by market segment, is both too cumbersome and too unreliable to be possible or profitable. The strategic plan attempts approximations without such details and seeks, rather, to provide broad, desirable objectives which, over-all, are considered achievable.

The number of individual product plans (also known frequently as brand plans) varies directly with the number of products and/or markets in which the organisation is operating. Such a form of marketing planning is more frequently met in those organisations with strongly branded products, or very clear-cut markets in which to operate; it is commonplace among major consumer-goods manufacturers and relatively rare among producers of specialised industrial goods. Even among major consumer-goods manufacturers it is rare for all products to receive the same detailed planning attention: usually such work will be carried out on those products which earn important revenue and profits for the organisation, while the more minor money-earners may receive relatively less attention. Such a scheme is largely dictated by cost-effectiveness factors: it simply is not worth devoting the expensive energies of teams of planners, and the services they require, to promote small profit-earners in small markets .

The basic element in the operational marketing plan is thus the *product plan.* A number of product plans, large or small according to the complexity of the organisation, will be amalgamated to provide the central core of the operational marketing plan.

The annual operational *marketing* plan will consist of a formal document which will make clear the objectives to be achieved, and the means by which they will be achieved in so far as the marketing function is concerned. In addition to product plans, such a marketing plan will also outline the activities of the selling function, the distribution function (those organisations where distribution is considered the responsibility of marketing), the market-research function and the public-relations function, *but all these activities will be a reflection of what is needed to achieve the objectives of individual products in their markets.*

In exactly the same way as the various non-marketing functions of the organisation will await the arrival of the operational *marketing* plan before deciding how best to construct their own operational plans, so the divisions of the marketing department not involved in creating product marketing plans – i.e. sales, distribution, market research and public relations – will await the advent of these plans from the product planners before they can develop their own functional plans.

For simplicity Figure 3.1 shows the annual operational plan structure as having two broad constituents: marketing and non-marketing. At the core of the annual *marketing* plan lie the product plans: a set of separate documents each relating

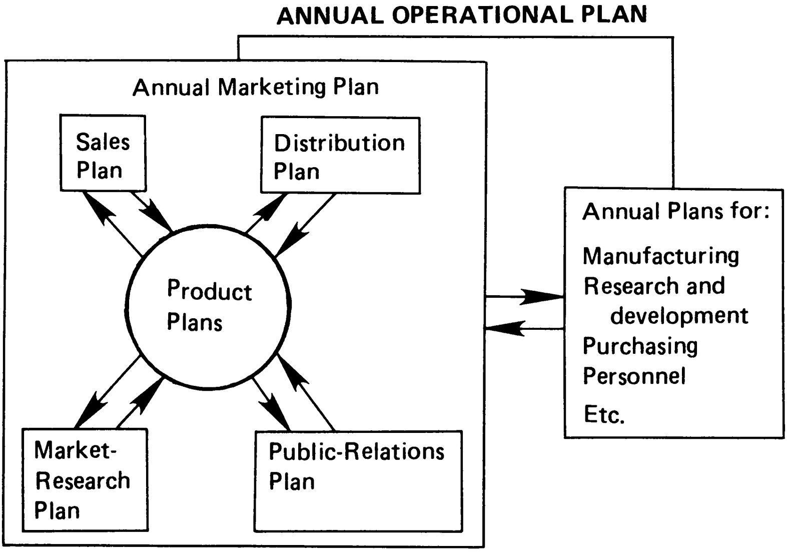
ANNUAL OPERATIONAL PLAN
Annual Marketing Plan
Sales Plan
Distribution Plan
Product Plans
Market-Research Plan
Public-Relations Plan
Annual Plans for:
Manufacturing
Research and development
Purchasing
Personnel
Etc.

Figure 3.1 *Structure of the annual operational plan*

specifically to separate segments of the organisation's business – usually brands or markets. (In consumer-goods companies such Plans would be produced by the marketing product planning section of the marketing department: a group of individuals devoted to the planning and control responsibilities of products allocated to them.) The other sections of the marketing department – selling, distribution, market research and public relations in this example – would await the finalisation of product plans before embarking on finalising the operational plan elements of their own activities. They would also have continuing interaction with the product planners about the feasibility and acceptability of the product plans as they are developing. The product planners do not plan in a vacuum. They will want to be sure that targets and objectives requiring strenuous effort on the part of other functions may be considered by such other functions as reasonable and achievable. Hence the two-way arrows in the diagram: product planners are crucial in shaping the work-patterns of other company functions; other company functions are crucial in limiting and guiding the tactical alternatives available to product planners.

Within the annual marketing plan there exists an intrinsic difference between the product plans and the other plan elements (in the square boxes, as against the circle around 'Product Plans'): a product plan aims to synthesise all planned company activity affecting the marketing of that product. It is primarily concerned with the marketing philosophy for that product and of the goals to be achieved as a result of that philosophy, as well as a document which will make clear the practicalities required administratively for their achievement. The other elements of the marketing plan – the sales plan, the distribution plan, etc – are primarily concerned with the administration of these functions *in order that the goals stated in the product plans may be achieved.* For example, the sales plan will be concerned with the number of salesmen to be deployed, their responsibility structure, call cycles and frequency, expenditures that will be incurred, training programmes to be undertaken, conferences to be held, rewards to be paid, etc., *in the light of the goals set in* *the product plans and all requirements of such plans on the sales function.*

The annual plans for non-marketing functions are similarly concerned to map out the detailed administration of each of the functions in order to ensure maximum efficiency in achieving *the goals created for each product within the product plans.* Thus the role of the product plan within the organisation's operational plan is both centrifugal and centripetal: centrifugal in that it exerts a strong outward pressure for the efficient deployment of resources in all other functions to meet its goals, and centripetal in that it requires to draw to its centre all the factors of purchasing, production, finance, etc., which will limit its range of tactical alternatives in its selection of marketing programmes to achieve such objectives. The purpose behind all this activity is, broadly, to provide the organisation with a clear marketing programme.

THE PURPOSES OF THE OPERATIONAL MARKETING PLAN

It is necessary to establish precisely the purposes the operational marketing plan serves, and the uses to which the plan is put in those organisations which employ such a system.

1. *Forecast of Sales*

In terms of the extent and frequency with which all the functions in the business organisation use it, the *forecast of sales* incorporated in the marketing plan is its single most important contribution to the organisation. Thus, arguably, the central purpose of the marketing plan is to arrive at this estimate of the units of product – units, cases, cartons, etc. – which are to be sold in the year ahead. Such a forecast will of course be made for each model, brand, size, flavour, etc., for every product sold by the company.

Such a forecast satisfies a multiplicity of purposes:

(a) It provides the *manufacturing facility with a precise statement of what they will have to make.* Available – as it always is – in the form of a schedule of monthly unit sales,[1] the forecast provides the factory with a basic blue-print of its work-load for the twelve months to follow.

(b) Accompanied by a forecast of the prices at which each of these products will be sold, the forecast of unit sales *provides the essential forecast of sales revenue* which will be available to the company. Crucial to the whole organisation in general, it provides the financial function in particular with the basic ingredient from which so much of their work stems: the calculation of profits, cash flow, borrowing requirements, etc.

(c) The forecast *enables planning to start in a number of other functions* in the company: purchasing, distribution, personnel (recruitment of part-time labour, for example), etc.

(d) The forecast of unit sales is also, within the marketing function, *crucial to the sales force*, who will plan their work-load, salesmen's targets and commission payments on the basis of this forecast.

2. *Justification of the Forecast*

In many organisations the provision of the forecast of unit sales – literally a few sheets of figures only – is the only marketing contribution to the operational marketing plan. In such companies it is probable that the forecast is furnished by the sales force, the sole representatives of the marketing function in these companies. In the more sophisticated marketing organisations much of the operational marketing plan is concerned with *justifying* the forecast. This is achieved through a process of revealing in detail both the past trends behind each of the products for which a forecast is provided, and allying these trends to a programme of future marketing activity which, it is hoped, provides a logical basis for the provision of the specific sales quantities forecasted.

Obviously all forecasts of future sales are based on a multitude of assumptions, the majority of which are speculative; but a statement of the assumptions that are being used at least makes clear the reasons for the forecasted level of sales. Additionally, the statement of these assumptions – many of which are capable of being checked after the event being forecasted – provides a basis for future postmortems; they often make clear which of the assumptions turned out to be wrong and which right. As a learning exercise, leading to improvements in future planning, such justifications and explanations are invaluable.

3. *Justification of Marketing Expenditure*

The operational marketing plan, in common with the operational plans for the other functions within the organisation, will seek to explain and justify the department's need for funds: for advertising expenditure, for trade and consumer promotional expenditure and for the running of the sales force, market-research facilities and any other costs incurred. For many companies such costs are considerable, particularly among consumer-goods companies that operate in the more competitive markets of the world. Such costs may run into millions of pounds and not infrequently account for 15 to 20 per cent of the company's total revenue. As such, these costs require strong supporting evidence to justify their necessity.

4. *Review of Marketing Policy*

Echoing a point that has already been raised in discussing the needs for a company operational plan, the operational marketing plan, as a discipline, ensures that at least once a year a thorough review is undertaken of the organisation's basic offering – the products or services it markets – and of the sales function which is responsible for obtaining the orders for such offerings and, therefore, the revenue for the organisation.

5. *Review of the Market-place*

In the process of arriving at the best marketing plan for his products the marketing planner will inevitably undertake a thorough review of the state of the market in which his products operate. In reviewing these marketing plans with a view to approving them, the senior management of the organisation will themselves be brought up to date with the company's markets. While this is rarely a purpose expressly incorporated as part of the function of the operational marketing plan, it nevertheless fulfils that purpose. As a factor in improving the quality of decision-taking within the organisation, this provision of essential background data to the organisation's activities in the market-place is invaluable.

6. *Control and Approval*

Once the operational marketing plan has been approved as the agreed marketing policy for the coming year, clearly it continues to have value as a reference document for those responsible for ensuring that the policy is carried out. The larger the organisation and the more distant its controllers from the source of action – through hierarchy or geography – the more the marketing plan will be relied on for reference. The general manager of a major division of an international company (who might be responsible for the activities of twenty or more companies, operating in forty or fifty markets with 200 or 300 products) will find such annual marketing policy documents invaluable.

Chapter 4

The Product Plan

INTRODUCTION

The areas of marketing policy to be reviewed in the compilation of a product plan will vary considerably from organisation to organisation and, within any one organisation, from market to market, or from brand to brand:

(1) One major variable in drawing up a product plan is *the quantity and quality of data* that is available to the marketing planner. Whereas many of the major companies operating in competitive markets will have highly developed information-gathering systems relevant to market analysis – through the activities of their market-research departments, sales data processing, etc. – many organisations have much less market and product performance information than is required to ensure the validity of comprehensive product plans.

(2) Another major variable is that of the *attitude taken towards the function of marketing planning, and the degree of responsibility given to planners* by the organisation: even companies with fairly well-developed marketing functions, and a tradition for thorough product planning, may consider such areas as product costings and product profitability to be outside the scope and responsibility of the marketing planner. In other organisations responsibility for public relations for the product, or the provision of merchandising materials and salesmen's selling aids, may be considered as resting in the hands of specialists, outside the control of the product planner.

(3) Another variable in the scope of product plans has already been mentioned: *not all products will receive the same level of complete analysis and planning that will be*

given to a company's major brands. Minor products may only receive cursory attention, be briefly reviewed and their annual plans be organised to contain only key data, such as a forecast of unit sales, brand share and distribution targets, an outline of promotional activity and a financial statement of their revenue and profitability.

In order to examine the areas of policy-making involved in the annual product plan, it will be necessary to consider a hypothetical plan for the type of product which would attract detailed examination by the marketing planner, by virtue of that product's importance to the company. Furthermore, the review of product planning that follows will be based on the assumption that it is typical of product plans emanating from organisations that give the widest possible responsibility – for planning virtually *all* activities connected with the product – to the marketing planner.

Finally, it will be assumed that the product plan outlined will *be founded upon a wide base of information*, made available by an organisation concerned with being fully informed about its markets and its activities within those markets.

THE APPROACH TO PRODUCT PLANNING

Confronted annually – if not more frequently – with the need to formulate product policy, the *product manager*[2] is required to fulfil that need efficiently, actively and profitably. The nature of the activity requires a sequential and logical approach to his task if he is to be successful:

1. ANALYSIS. He will first wish to establish the existence either of problems to be solved or opportunities to be seized in the marketing development of his product. His ability to detect either will depend both on his power of analysis and on the accuracy of the information that is available to him.
2. SOLUTION. Assuming he has correctly 'read' the situation in the market-place, he will need to create a marketing plan which will solve or at least minimise the product's

problems and maximise the product's marketing opportunities.

3. EXECUTION. Assuming that he has persuaded his organisation of the correctness both of his analysis and of the policy he has recommended for the product, he will need to ensure that such a policy is enacted by the organisation.
4. CONTROL. To ensure that both he and the organisation for whom he works will be able to measure the progress of the product plan he has created, he will need to institute, monitor and report on control mechanisms which will measure just such progress.
5. ANALYSIS. As his control mechanisms reveal new data concerning the progress of his product in the market-place, so, once more, he will set himself to analyse these latest trends with a view to establishing the existence of problems and opportunities hitherto unrevealed.

This, in essence, is the wheel of activity (to the disillusioned, the treadmill) of the product manager. The first two steps – analysis and solution – represent a synopsis of the product plan's aims. The next two – execution and control – represent a summary of much of the remainder of the work in the product manager's year.

While the core of the product plan consists in the analytical insight that can be brought to bear on the product's position in the market-place, and the design of a creative plan to maximise that product's future potential, none of the analysis or planning serves any useful function *unless the product plan contains clear unambiguous and measurable objectives.* There is a natural temptation in all marketing planning to summarise the purposes of the activity planned in terms of generalisations and well-meaning platitudes. One marketing analyst (Wheatley, 1971) has listed what he terms 'the most common marketing generalities':

1. 'Our policy will be to beat (or lead) competition.'
2. 'Our suggestive advertising campaign will have a high impact through its intensive aggressiveness.'
3. 'We intend steadily to build our market.'
4. 'We will offer a better (or quality) product.'

5. 'Our packaging will stand out from all others.'
6. 'Our plan is to satisfy the consumer.'
7. 'We plan to penetrate the high-class market.'
8. 'We will develop a system for keeping tabs on sales.'
9. 'We will advertise through TV, radio and through newspapers.'
10. 'We must get our products into the public's eye.'
11. 'We will wage a low-pressure campaign.'
12. 'Our ultimate objective is to increase profits.'
13. 'Our primary objective will be to impress distributors.'
14. 'We will produce a different product.'
15. 'Our price to the channel (or final consumer) will be fair.'
16. 'We will seek a reasonable profit.'
17. 'Our detailed plans will be based on our market research.'
18. 'We must stimulate the consumer.'
19. 'We will establish intensive distribution.'
20. 'Our plan will increase sales.'

All of these statements are simply good intentions, capable of a wide variety of interpretations and totally without any criteria by which their achievement may be measured. For example, a competent marketing plan will never state 'Our plan will increase sales', but will say, rather, 'Our plan will increase sales by *X* thousand units (or £s): from *Y* thousand units in 1980 to *Z* thousand units in 1981, an increase of *A* per cent': specific, clear and measurable, providing a goal against which progress can be measured as the year unfolds.

Further examples of making objectives specific, and providing them with quantified and measurable criteria, are made below, set out against a selection of the generalisations elaborated in the previous list:

1.	*General*	'Our policy will be to beat (or lead) competition'.
	Specific	'The product plan seeks to move the brand's market share from its current 10 per cent of consumer unit sales (Nielsen) to an end-1980

share of 14 per cent, to become the number one brand in this market.'

4. *General* 'We will offer a better (or quality) product.'
Specific 'Our consumer product test clearly shows (data attached) the product we are about to launch is significantly more acceptable to consumers than all other brands currently on the market, on all major consumer criteria.'

7. *General* 'We plan to penetrate the high-class market.'
Specific 'The product plan has the objective of increasing consumer usage of the brand among ABC1 class groups from its current 9 per cent to a planned 15 per cent by the end of 1980.'

12. *General* 'Our ultimate objective is to increase profits.'
Specific 'As shown on our three year profit and loss statement, the pre-tax profits on this brand is planned to improve from £*X*,000 in 1981 (2 per cent of sales revenue) to £*Y*,000 by 1982 (5 per cent of sales revenue).'

Similar specific objectives may be written for each of the twenty generalisations included in the previous list, and, in fact, must be written if the generalisations are to be avoided.

As Fox and Wheatley (1978) have stated:

> A precise statement of objectives forces planners to consider what is possible and feasible – and what is needed to achieve them.
>
> The clearer the objectives are, the easier it is to develop plans for achieving them. Progress towards achieving them can be more easily measured and authority for attaining them can be determined. Such statements also enable other functional area executives to respond more specifically and to make their impact more helpful.
>
> Finally, specific statements of your objectives give you clear, written records of what you hoped to achieve. Even if something goes wrong, this will help you to reduce the likelihood of making similar errors in the future.

MAJOR AREAS OF REVIEW

The statement that the product manager is required to formulate product policy is, in fact, somewhat misleading: he has to determine not one but a multitude of policies for each product he may handle. Each policy area requires to be analysed, each will require a successful solution whenever problems are found.

In summary, policies will need to be examined, analysed and resolved in the areas of:

1. PRODUCT POLICY	(a) Product formulation and packaging
	(b) Product costs and prices
2. PROMOTIONAL POLICY	(a) Advertising: (i) creative; (ii) media
	(b) Consumer promotions
	(c) Trade promotions
	(d) Sales aids/merchandising
	(e) Public relations
4. SALES POLICY	(a) Trade terms
	(b) Trade coverage
	(c) Promotional incentives
	(d) Product sales targets
4. FINANCIAL POLICY	(a) Promotional expenditure
	(b) Product profitability

It is convenient, when writing about them, to segregate these policy-decision areas into neatly separate packages, discussing the main ingredients involved under each heading. In the market-place no real separation ever exists, and the product planner will be constantly aware of the interaction between all of the areas: recommendations to change any one policy from its current practice will generally affect many if not all of the other areas. In considering alternative marketing strategies this is the major problem faced by the planning function: every alternative may well require a total reassessment of all elements of existing policies.

Thus the essence of product planning is its need to emerge as an *integrated plan*, each element logically reflecting the effect of every other element. In reading the remainder of this part of the book concerned with putting together a *product plan* this fact must constantly be borne in mind by the reader.

PRODUCT-PLAN FORMAT

It has already been made clear that operational marketing planning varies widely from company to company and, within companies, from market to market and from product to product. It will be no surprise to find out, then, that the actual formats adopted for the product plan will also vary widely. Such a generalisation is, however, not very helpful to the reader trying to visualise just what a product plan looks like. For this purpose, it is necessary to lay out a sample product plan in sufficient detail to enable the reader to appreciate both the complexity that exists and the logic that is brought to bear on the creation of such an important document.

A number of assumptions require to be outlined to support the logic of the format exemplified: It is assumed that:

(1) The product plan described is concerned with a product of major importance to the organisation, i.e. that it requires a very complete plan.

(2) The organisation has access to considerable market data, and is in the business of standardised and regular measurements of its critical marketing functions, e.g. sales, distribution, advertising, etc.

(3) The product plan is for an existing product, already in the market-place, and *not* a product plan for the launch of a new product. Launch plans will almost certainly include all elements normally in a product plan but will emphasise more heavily certain aspects of marketing not necessarily emphasised in the product plan for an existing product, e.g. product and packaging consumer-acceptability data, long-term revenue and profit forecasts, special public-relations efforts, etc.

As at this stage only a synopsis of the elements involved in writing a product plan is provided, a number of areas discussed in the sample format will appear somewhat inscrutable. The chapters that follow will elaborate in some detail all of these elements and thus should serve to clear up any uncertainties encountered here.

Product-plan format example

A. SUMMARY

Section 1: Financial summary

(a) Forecast unit sales.
(b) Forecast profit and loss account, including forecast marketing expenditure.
(c) Financial assumptions: forecast of product pricing and product costs (*direct*) and overheads (*indirect costs*).

The financial summary data are provided in terms of the forecast (plan) period versus data for at least two years preceding the forecast period.

Section 2: Marketing summary

(a) Key elements of marketing activity planned for the product.
(b) Key changes to current product strategy, including changes to the product itself, and the rationale behind such changes.
(c) Key marketing objectives to be achieved as a result of (a) and (b) above, e.g. brand share, distribution and brand-awareness targets.
(d) Key assumptions concerning the major marketing parameters, e.g. market-size changes, forecast of competitive activity levels, changes in user consumption levels, estimates of general economic climate.

B. MARKETING DATA

Wherever relevant, all marketing data show *trends* over the last three to five years and include competitors' products and activities.

Section 3: Basic market parameters

(a) Market size: users, consumer sales, value.
(b) Distribution: channels, distribution levels.
(c) Brand shares: units and value.

Section 4: Basic consumer parameters

(a) Market-segmentation parameters, e.g. usage by price, geography, class, etc.
(b) Consumer-usage characteristics, e.g. frequency of purchase, quantity of purchase, loyalty patterns, purchasing decision-makers.
(c) Consumer demographics.
(d) Consumer attitudes/product images/company images.
(e) Product acceptability among consumers, e.g. product test findings.

Section 5: Basic marketing parameters

(a) Product pricing in the market:
    Consumer prices
    Trade terms
(b) Promotional Expenditure:
    Advertising
    Sales promotion
(c) New product activity
    National
    Test market

C. PRODUCT REVIEW

Section 6: Product strategy

(a) Current company strategy for the product.
(b) Recommended changes to product strategy (if any).

(c) Means to achieve (b) above and measurable targets in achieving it.

Section 7: Product formulation

(a) Physical and performance characteristics of the product versus those of major competitors.
(b) Recommended changes to (a) above (if any).
(c) Means of achieving (b) above.

Section 8: Product packaging and image

As for section 7 above, for packaging and image strategy.

Section 9: Product costs

(a) Detailed breakdown of materials and labour costs' (direct) trends over the last two to three years.
(b) Forecast of product costs.
(c) Review and recommended changes (if any).
(d) Impact of planned (forecast) cost changes on marketing contribution and/or price.

Section 10: Product price

(a) Consumer price, strategy to date.
(b) Consumer price, plan recommended and rationale.
(c) Channel pricing strategy: trade terms.
(d) Recommended changes to (c), and rationale.
(e) Impact of price plan on product revenue.

D. PROMOTIONAL PLAN

Section 11: Promotional strategy

(a) Promotional strategy to date and its rationale.
(b) Promotional programme for the current planning period ('this year').
(c) Promotional programme for this product plan ('next year'), changes to current strategy and rationale.

Section 12: Promotional summaries

(a) *Promotional calendar.* A timing schedule, sales period by sales period, of all major promotional activities planned for the product: periods of advertising, consumer promotions and special trade promotions, special public-relations activities and major sales conferences.
(b) *Advertising.* Media schedule: month-by-month advertising expenditure planned both for consumer and trade advertising, with associated audience reach and frequency, gross rating points and estimated costs.
(c) *Summary of sales 'on deal'.* Summary of the number of unit sales of the product planned to be sold on special consumer and trade deals as a proportion of total product sales, in comparison with such data from previous year(s). Cost estimate of such deals.

Section 13: Advertising

(a) Advertising creative and media strategy to date and rationale.
(b) Planned changes to creative and media strategy and rationale.
(c) Planned advertising creative strategy and objectives.
(d) Planned advertising media strategy and objectives.
(e) Advertising expenditure details.
(f) Proposals for measuring the achievement of advertising objectives.

Section 14: Consumer promotions

(a) Strategy on consumer promotions and rationale.
(b) Planned changes to consumer promotion strategy (if any) and rationale.
(c) *Detailed specific promotions.* Timing, quantities to be sold, distribution channels to be involved, objectives of the promotion, distribution levels sought by outlet type, associated promotional materials and detailed promotional costs.
(d) *Advertising and public-relations* activities associated with each (major) promotion.

Section 15: Trade promotions

(a) Trade promotion strategy to date and rationale.
(b) Planned promotional strategy and rationale.
(c) *Detailed specific promotions.* As for section 14(c).
(d) *Advertising and public relations.* As for section 14(d).

Section 16: Sales aids

(a) Point-of-sale materials to be used for the product:
    Standard
    Special promotions
    Special accounts (trade customers)
(b) Selling aids for the sales force:
    Standard
    Special promotions
    Special accounts

Section 17: Public-relations programme

Summary of public-relations activities planned for the product.

E. SELLING PLAN

Section 18: Sales strategy

(a) Strategy to date and rationale.
(b) Planned strategy:
    Selling effort
    Promotional frequency
    Special monetary allowances.
    Merchandising effort
    Major accounts planning
    Sales call: priority and procedures
    Salesmen's incentives
    Discount flexibility
    Selling aids and point-of-sale use

Section 19: Unit sales forecasts

Detailed breakdown, month by month, forecast of unit sales.

Chapter 5

Product Strategy

In marketing textbooks the term *product strategy* is widely used to refer to that strategy developed by an organisation to determine the *mix of products* it wishes to make available in the market-place. This is *not* the sense in which the term is used here. In our context the term is used to define the strategy employed in the marketing of one particular product, without necessarily any reference to other products within the product mix of the organisation. As used here, product strategy refers to the organisation's fundamental marketing premises on which past and present policies have been based for that particular product.

In writing a product plan the marketing planner will want to be certain he is clear as to the product strategy which underpins the brand for which he is asked to devise forward plans. Such a strategy, whether it has been written down or not, amounts to the sum total of beliefs and attitudes about the product within the organisation, and the reflection of such beliefs and attitudes in the marketing tactics previously employed. Product formulation, pricing, packaging, selling and promotional activity should all reflect the organisation's attitude towards the product.

PRODUCT FORMULATION AND PACKAGING

When the product manager sets out to produce a set of marketing plans for the forthcoming year, he will almost certainly turn his attention first to the product itself.

His principal concern for the product relates to its *performance acceptability in the eyes of the consumer.* The performance acceptability – the level of satisfaction obtained from using the product – is determined by two interlocked elements:

(1) *Product formulation.* That is, the physical qualities of the product which impart to it its essential *performance characteristics.* These may be relatively simple, as in the case of a packet of sugar, from which a relatively small number of properties are expected by consumers, or they may be highly complex, as in the case of a car, judged by users and potential users on dozens of complex and interrelated performance criteria.

(2) *Packaging.* That is, the physical and emotive qualities of the product which impart to it some of its essential *informational and image characteristics.* This factor is almost never simple, is difficult to measure and yet may often be overwhelmingly responsible for the success or failure of the product. The word 'packaging' is here used to include both the physical properties of the external appearance of the product – bottle, carton, logo, frame design and colour, product labelling, etc – *and* the emotional response such appearances stimulate through colour, design, brand and company names, appearance against competitive products and all the hundred and one criteria, conscious and unconscious, by which human beings respond to almost any product.

In the construction of a marketing plan for his product the planner's first concern will be to decide whether changes need to be made to the product, in the light of its performance in the market-place.

He will have to decide on such changes *first*, for it is probable that any such changes will have an effect on other marketing-planning areas.

In a perfect world the product manager would have a precise set of measures to tell him about the market's response to his product's formulation and packaging. In reality he will have considerably less information than this. He will have to make an assessment, from the information that he does have, as to how much of the responsibility for the success or failure of his product should be laid at the door of the performance or the packaging and image characteristics of the product.

This assessment is made more complex by the fact that the consumer's acceptance of a product almost always changes over time. Any formulation and packaging advantages initially secured by a product over its competitors is eventually lost: through competitors improving their products and changing their product's packaging, the acclimatisation of the user to the product advantages – so that they no longer seem superior – consumer boredom through continuing experience of the product and, in general, the rest of the world catching up and improving on the product. For any of these reasons the product planner may have to consider making modifications to the product. To help him maintain a watching brief on the level of consumer acceptability of his products, the product manager may well use the services of market-research specialists: they will be able to establish much information in this area through product tests and the monitoring of changing consumer attitudes. Additionally, the technical research facilities of the organisation will be called on to maintain a watch over, and report on, changes in the make-up and manufacture of competitive products, through continuous laboratory analysis of these products.

There is, however, another side to this marketing coin. In any market there are likely to be a number of *positive* reasons for wanting to make changes to the product's formulation and image characteristics, as against the rather negative reasons outlined above:

(1) It is possible that a *new development in product formulation becomes available* to the product manager from research work carried out in the research and development laboratories of the organisation.

(2) The rapid change in virtually all modern technologies is such that *new manufacturing processing and packaging techniques, equipment and materials* give the organisation increasing scope for product improvement and packaging innovation. In a company which is thoroughly marketing-orientated, the production engineers, the research and development scientists and materials-purchasing personnel will be alert to the marketing need for innovation, and report on all developments outside the company which may fulfil

such needs. Ignoring such changes, or a failure to respond to them, may well be hazardous:

> In 1972 . . . American Optical was the undisputed leader in production of glass optical products. As its rivals turned to plastics, A.O. clung fiercely to that title – even as the market for glass lenses started to melt away. By 1974 plastics had 20% of the market (in 1979 they will [*sic*] reach 50%) . . . Such debacles have deeply eroded A.O.'s profitability. ('Turning Warner–Lambert into a Marketing Conglomerate', *Business Week*, 5 March 1979.)

(3) *In many markets, product changes are the rule and not the exception.* In the world of fashion – of clothes and cosmetics, of perfumery and accessories, of furniture and furnishing materials, and to a considerable extent in many markets less associated with fashion – such as cars, paints, household durables and crockery – there is a built-in planning need to change patterns, develop new models, restyle and update current products virtually on a continuous basis. Boots, the High Street chemists, relaunched their No. 7 range of cosmetics and skin-care products. They said: 'It is crucial to think of relaunching on the crest of a wave, as even the most loyal customers want a change after a number of years' (Kemp, 1980).

(4) *In the knowledge that individual products become 'tired'* in almost any market-place, many product managers will consider making even quite marginal, cosmetic modifications to a product in order to revive the consumer's flagging interest in the product; to enable the product to be relaunched with the tag 'NEW, IMPROVED', so frequently successful in the marketing of consumer goods. Referring once again to Warner–Lambert (American Optical):

> Listerine Mouthwash is a prime example of Warner–Lambert's ability to keep pumping new life into old products through . . . skilful use of product variation . . . The logic behind this approach is simple enough. 'The cost of new product development is enormous,' says Pezzillo [President, W–L Consumer Products Division]. 'The best

> strategy is to keep products updated. It works for us. Look at P & G with Tide: that product must have been updated at least 15 times, and it's still No. 1.' (*Business Week*, 3 March 1979.)

Ideally, because of the greater certainty of success, the product manager will want to wait for a major development to emerge before its incorporation into his existing product; such developments can be more clearly seen by the potential user as a reason for buying the product, are necessary to persuade those in the market who up to the present have resisted buying the product, and are invaluable in providing a real 'story' worth telling through advertising.

While there may be excellent, logical reasons for changing the formulation and the packaging of his product, the product manager will often hesitate to make such a recommendation because of the hazards involved. The majority of marketing practitioners recognise that their ability to diagnose with any precision the reasons for the success or the failure of any particular product is limited. Even with the support of exhaustive market data, such a diagnosis is frequently no better than 50 per cent factual and 50 per cent guesswork. Most successful products are so probably because they have been based on an unusually high level of good decisions in an unusually large number of marketing-mix elements, but most product managers would hesitate to apportion a fixed percentage of such success to any one of the mix elements: pricing, packaging, distribution, selling, advertising, etc. Consequently, when a product has emerged as a success there are always anxieties about changing any one of the mix elements. A minor modification to the formulation or the packaging may, on the face of it, seem an unlikely candidate for disaster, but the consequences of disaster are usually so traumatic that the organisation is always tempted to leave well alone.

If the logic and the pressures for change are great, the product manager will often recommend such a change on a test-market basis, which minimises the risks involved, though it delays the application of the benefit to the market as a whole.[3]

One other important criterion for change remains to be discussed. Virtually all formulation and packaging changes affect the basic cost structure of the product and may, indeed, affect other costs if the product changes require that routines and procedures in production be appreciably changed. To the anxieties about the wisdom of making modifications to the product, for the fear of the loss of market, there must be added serious concern that such changes may have an unfavourable effect on costs.

If the changes require an increase in the product's price, then the product manager will have to decide whether such an increase will affect its level of consumption in the marketplace, the effect of such a change to the product's standing, to the company's standing and to company profits.

Changes in the product costs themselves may be a reason for changes to the product: in reviewing the product's cost structure, the product manager may come to the conclusion that changing the formulation or the packaging or both may be the only way to resolve cost – and thus price – problems. Changes in the cost of materials and processes, the loss of cheap supply sources for materials critical to the product, legal sanctions (or moral ones) against the continued use of certain previously used materials, growing difficulty in finding supply sources of essential materials, may all be good grounds for a re-examination of the basic, physical structure of the product and for the incorporation of changes necessary to overcome such problems.

The product plan will have to make clear whether changes will or will not be made to the product itself, the reasons for such changes and their implications to product costs, prices, market share, consumer attitudes and to the forecast level of sales and of profits.

PRODUCT COSTS AND PRICES

Introduction

The ultimate measure of the competence of the product plan lies in its ability to achieve the plan's forecasted *profit* *and loss account*, and – over the longer term – the continuing health of the product's profit and loss account over the years.

It is thus primarily in his role as *revenue manager* that the marketing planner fails or succeeds in his appointed task. No amount of success in other areas of marketing competence can make up for any serious weakness in the revenue-earning powers and over-all profitability of a product. The Profit and Loss Account is the financial document which 'summarizes the results of operations for a period of time. It is therefore a *flow report*' (Anthony and Reece, 1975).

For any one particular product the profit and loss account states the revenue that that product has earned the company over a specific period of time, offset by the expenditure incurred in the process of making, promoting and distributing that product to the market-place.

The difference between revenue and expenditure is the *income* that the company makes – the *profit*. For this reason the profit and loss account is also called the *income statement.*

The revenue that a product earns in a particular period of time simply consists of the *volume* of that product that has been sold, at the *price* that has been charged.

The ability to achieve the *forecast revenue* in a product plan, for a particular product over a particular period of time, is thus dependent on:

(a) An *accurate forecast* of the volume that will be sold.
(b) An *accurate forecast* of the price at which it will be sold.

This 'accuracy' will be crucially dependent on the marketing plan's ability to provide precisely the required stimulus to the buyers to persuade them to buy that forecast volume at the forecast price. The 'required stimulus' in this sense is, of course, the sum total of the product plan on which the marketing planner is working: every facet of his product plan is geared towards providing exactly that stimulus required to achieve those forecasts.

But among all of the marketing-mix elements examined by the marketing planner when he compiles the product plan, none is more important than that of *price.*

While price crucially determines the product's revenue-earning powers, so costs (expenditure) determine its income or profit-earning powers. If the marketing planner is to have some responsibility for the product's profitability, then clearly he will wish to be involved in the cost incurred by the product, and will consider an examination of such costs important in the compilation of the product plan.

Price

While price is of central importance to the success of any product in the market-place, in reviewing his options the marketing planner has a wide set of alternative strategies in planning for the launch of a *new* product but a much narrower set of alternatives when he is planning the progress of an *already established* product. An established product will have achieved its success with its existing price structure. Any changes to such a structure may unwittingly unbalance the mix to the disadvantage of the product: the trade and the consumer will have come to accept the product *together with its price*, and price changes may result in unforecastable changes in consumer and trade acceptability.

Despite such reservations about changing price, it is nevertheless necessary for the planner to re-examine the price structure of a product that is already established in the market-place.

He will first of all need to review the product's historical pricing strategy: those factors which have led the company in the past to position the product in its particular price bracket, together with those factors which determined a set of specific trade discounts within the competitive surroundings of its particular market.

A number of factors may result in the planner recommending changes in the product's price strategy:

(1) *Competitive product pricing.* Recent pricing activity on competing products may invalidate current pricing strategy. For example, a market may move quite quickly from restraint in pricing competitiveness to outright price war; or, the product being planned may have been initially priced to

be at a premium price in the market, relative to competing products, but price increases by competitors may have bridged the gap so that the desired price differential has disappeared.

(2) *Costs.* Quite obviously the planner will need to review the current costs of his product and determine the likely level of the continuing rise in costs, in order to decide what changes in price strategy may have to be made resulting from the pressures of costs on his pricing options.

On the other hand, dramatic decreases in product costs – brought about by a technological breakthrough in material or manufacturing processes, for example – may open up completely new profit and pricing possibilities.

In either case – rising or falling product costs – the product's potential profit is affected. Clearly, if product costs are rising and no pricing changes are recommended, all other things being equal profits will decrease. If costs are falling, opportunities to improve sales through price decreases or increases in marketing expenditure need to be considered.

(3) *Price-points.* There may be market-research evidence available to the product planner which suggests that the market in general – or his product in particular – is sensitive to certain consumer price-points: those points on the pricing scale where large effects may occur in sales from quite small price changes, e.g. the old pocket-money barrier which persuaded the larger British confectionery manufacturers to avoid going over the 'sixpence' price limit for bars of chocolate, or the known retailer benefits of pricing an item at £1.99 rather than at £2. Should such evidence be available, the marketing planner will want to reconsider his response to pricing and profitability if his product is in danger of breaching such a price-point.

(4) *Major product changes.* There are occasions in the life of the product when a radical change in its marketing policies may be necessary: due to sudden and unexpected changes in the market itself, or the entry of revolutionary competing products, for example. At such a point pricing may be re-examined as if the existing product were, in fact, a new one; indeed a 'relaunch' policy may require such radical changes

to the product itself that a new price strategy is almost inevitable.

In those industries where selling is achieved through a chain of distributors price decisions are critical not only as to the price paid by the ultimate user (in consumer-goods industries what is called the *retail selling price* (RSP) or *consumer price*) but also as to the price charged to the middlemen: the *manufacturer's selling price* (MSP). The difference between the MSP and the RSP is, of course, the margin available to the distributors. Such a margin varies from market to market, from distributor group to distributor group, and even occasionally from one manufacturer to another, even when both of them operate in the same markets and with the same distributor groups. While tradition frequently serves to determine such trade margins, they are not inviolate and may be considered for change – with great caution – by the marketing planner. The planner will want to be convinced that the margins being given away on his product are no more and no less than are required to achieve the sales goals he feels are attainable.

Costs

For most consumer-goods companies price is a critical factor in marketing planning because the effect of price on the volume of sales achieved is powerful: 'They priced themselves out of the market' is an epitaph all companies fear to have applied to any of their products.

Against the powerful market-place pressure of consumer price-acceptance stand the counter-pressures of product costs and the profit requirements of the business organisation. For a manufacturer to have little success in selling a highly profitable item may lead to frustration and much wounded pride, but it does not compare with the pain experienced by the manufacturer who has great success in selling an item which has little or no profit return for the organisation, or (worse) for which every 'successful' sale results in a net loss to the organisation.

Clearly, the task of the marketing planner is to achieve the best possible balance between sales volume and profits: in other words, to ensure that the relationship between price and costs is one which will be fruitful in the long term to the organisation. Such a balance requires two organisational prerequisites:

1. *A system of financial analysis* which enables the organisation to identify as far as possible the real costs of a product.
2. *A financial strategy* which ensures both that the organisation seizes the opportunity to maximise its profit-building products *and* to minimise the possibilities of devoting resources wastefully on unprofitable products.

These points need to be developed further:

(1) *Systems of cost analysis: cost accounting.* If the product planner has been given the responsibility for recommending a price strategy for his product, he must relate it to that product's cost. Self-evidently, a pricing strategy unrelated to costs may still have considerable *relevance to the competitive pricing situation in the market-place*, but will probably have *no relevance to company profits.* Whether the price decision results in an increase or decrease in company profits should be as crucial as to whether it increases or decreases the success of sales volume in the market-place.

For the manufacturer who makes and markets a variety of products – all of them manufactured in a single factory – allocating all of the costs incurred in the making and marketing of one product (brand) may be difficult, if not impossible. Some of the costs will clearly be easy to allocate, e.g. the cost of materials used *exclusively* in the manufacture of that brand, and in no other, or the cost of the labour *exclusively* involved in that manufacturing operation, and in no other. Other cost elements will be less simple to allocate, but nevertheless be allocatable without great hardship or disagreement, e.g. the cost of one material used in the manufacture of three or four *different* brands, but the proportions of which may be easily traced to each of the brands. Still other costs simply cannot be allocated with any degree of competence or logic, e.g. the salaries and wages of those not involved in manufacturing, the cost of the computer used for information-processing, the expenditures on telephone calls, lighting and heating, running the staff canteen.

Over the years accountants have developed cost-accounting systems which, recognising the difficulties, have broken down costs to the maximum benefit of sensible price decisions by breaking down all costs into *direct* costs (allocated to products) and *indirect* costs (unallocated; often referred to as overheads). (See p. 179 for a discussion of cost allocation.)

Such a system provides a number of benefits to the marketing planner:

(a) *It gives him a clear idea of many of the 'real' costs* of the product and thus enables price decisions to be much more meaningful than they would be without that information.
(b) Since it is relatively simple to maintain an *on-going flow of information on changes in such direct costs*, the system helps the marketing planner constantly in his task of re-examining prices and product profitability.
(c) It allows *a basis for forecasting variations in direct costs*, enabling the marketing planner to incorporate a meaningful price strategy which will be relevant to the future time period involved in his annual product plans.
(d) Within the Product Plan the forecast of direct costs (provided by the company's cost accountants) serves as *a basic assumption on which the pricing strategy is founded*, and provides a benchmark against which the price–cost–profit strategy may be reassessed when, or if, actuality deviates from the forecast.

(2) *Financial strategy.* An awareness of the relationship between price, direct costs, indirect costs and profits is not sufficient to justify the pricing recommendations of the marketing planner as he writes his product plan.

An understanding of these relationships provides no guidelines as to the organisation's general financial requirements in determining a pricing decision, or indeed any marketing decision involving costs and expenditures.

The product planner requires to know the financial strategy of the company, as it refers to its marketing activities. Such a strategy will attempt to provide answers to a wide diversity of questions, for example:

1. What financial criteria does the company use in its judgement of financial marketing competence? Pre-tax profits as a percentage of revenue? Return on investment? Minimum of risk-taking?
2. What level of financial risk is the company willing to take on new marketing ventures? Is there a maximum sum of money to be willingly risked on any one venture? Is there a minimum, below which the organisational effort is considered too burdensome to warrant the (possibly) small gains?
3. What is the time period for 'pay-outs'? Does the company require market ventures to yield profits in the first year – or the fifth? Cumulatively or annually?
4. Does the company have a policy on marketing expenditures which limits, for example, the level of promotional expenditure allowed on any one product?
5. Does the company have separate financial requirements for new products as against products already established in the market-place? And what about ailing products?
6. Is there a corporate view on product pricing? For example, one which eschews bargain-basement pricing in favour of prestige pricing?
7. Does the company allow flexibility in its financial requirements, giving marketing planners the option of selling a mixture of low-profit and high-profit brands, or must all products conform to a minimum profit-level requirement?

The product planner's review of his pricing strategy and of his products' price–cost–profit structure must inevitably take into account the organisation's financial strategy. Different organisations will, however, operate under very different criteria, due to a wide variety of reasons. When an organisation operates in markets where the product life-cycle as a rule is very short – fashion products, for example – the profitability levels and time scale for profit-taking will be very different from those of organisations operating in markets where – like the consumer-durables markets – the product life-span is relatively very much longer. A small company operating in big markets may choose to take less risks (or more) than a major operator in such markets, and will be less fastidious about its pricing image than its big brother.

Quite simply, the product planner needs to know the financial rules under which the company has chosen to operate, even if only to know precisely how and when he has broken them, on those occasions when the exigencies of the market-place require unusual action to solve unusual marketing problems.

Chapter 6

Promotional Policy

> Sales promotion can be described as the hysterical arm of marketing operations (Winkler, 1972).

The scale and range of promotional activity in which consumer-goods companies are involved most clearly differentiate such organisations from those selling to industry and the government. In particular, those consumer-goods companies selling branded, frequently purchased and relatively inexpensive domestic products may well be operating with a marketing promotional budget which accounts for over 10 per cent of total sales revenue – excluding the cost of running the sales and market-research functions. Some of these organisations may even run at a promotional budget above 15 per cent of sales revenue. In so far as such figures reflect the *average* of expenditure across *all* their products, and that some of their products will inevitably attract very much smaller percentages of expenditure – those that are aged or dying, at the end of their life-cycle – there are numerous products in the High Street shops with promotional expenditures in excess of 20 per cent of their sales revenue. This is especially evident during the launch period (say the first two years) of a major new product introduction into those medium-sized but highly competitive markets where the 'cost of entry' is high relative to the ultimate rewards of success.

The range of promotional activities employed by these companies is considerable: *advertising*, in all its forms from television commercials to beer mats; *consumer promotions*, such as price reductions, prize-awarding competitions and the giving away of free samples; *trade promotions*, in the form of special prices, salesmen's incentives, premium offers and free goods; *public relations* activities in the areas of press conferences, releases to the media and sports sponsorship; and the thousand and one other ventures which seek to ensure that the audience at which such activity is aimed should prefer and purchase the products thus promoted.

For the product manager devising his product plan, the importance of promotional activity is undoubted, but he or she is bedevilled by the knowledge that it is both expensive and unguaranteed in its effects on the sale of his products. To quote from Bell (1979):

> The marketing planner often turns to the design of promotion strategy with mixed emotions. The development of promotion pushes us to the very frontiers of marketing knowledge. We must feel some trepidation as we tread the uncertain path through a maze of conflicting conceptions of consumer behavior. Simultaneously, we must sense an exhilaration when we realize that our personal creativity can make the difference between a merely acceptable marketing program and one that is truly distinctive.

He is also, to an extent, bedevilled by the enormous choice of promotional alternatives available to him. He is helped in his choice by historical data on the effectiveness or otherwise of promotional activity on his products. As in all the other areas of review he undertakes in compiling a product plan, he will require to analyse the product's history. He will examine the market's response to past promotional activity. Once more the study of market research and sales data may do much to clarify this analysis and lead more easily to recommendations for the future.

ADVERTISING

In discussing the planning activities of the product manager in the realms of promotion, advertising takes pride of place primarily because, for most consumer goods, it is the dominant promotional tool, both in terms of expenditure and – more importantly – in terms of what it is expected to do. In the world of industrial marketing it is the rule that the company which manufactures the product talks directly to the user who will buy the good: the seller meets, discusses, has a drink with, and enquires after the family health of, the buyer. The two of them may even have known each other for years, or have heard of each other's personal reputation. The industrial buyer, if he is unsure of his market, has available at his disposal lists of producers who manufacture the article he is seeking. With patience he may choose to have a representative of each producer call on him for a discussion of their products. Nearly always the contact is personal, frequently it is close.

In the consumer-goods market the conditions are dramatically different: the producer virtually never talks to the buyer directly (except to the irate, dissatisfied ones who ring him up to make complaints about his products), there is no *personal* way he may convince his prospective buyers of the excellence of his offerings. His buyers – housewives mostly – are largely indifferent to, and frequently unaware of, the companies that make the products she buys.

Without any hope of developing personal contacts with his purchasers, the consumer-goods operator must rely on the facilities of the advertising world. Even the good name the retailer was willing to give companies, in the old days of counter service (when the grocer might personally endorse a product to his customers), has disappeared with the advent of the self-service shop. Advertising, as a means of communicating information on the product and the company, as a means of persuading the prospective buyer to try his product and to keep repurchasing it, is the major persuasion weapon in the armoury of the product manager who must achieve these aims for his product. Under these circumstances it is perhaps difficult to understand why many products are never advertised or why the sums spent on advertising them are so small. For the product manager who is reviewing the advertising needs of the products for which he is responsible, this will be the first question which he must answer: should his unadvertised products be advertised?

While the needs to advertise seem, on the face of it, always self-evident, the area for argument turns out to be broader than might be supposed:

(1) *Credibility.* If the product has any characteristics which clearly mark it out from its competitors, then there will be no doubts about the advantages of it being advertised. On the other hand, should the product be virtually identical to competitive products, the value of advertising is less clear; the problem arises as to what can be said in the advertising that will not tax the credulity of the audience reached by it. If the product manager reaches the conclusion that the product has no apparent unique qualities, he will want to pass the problem over to an advertising agency which may be able to construct a means of differentiating the product from others. If such a construct is desirable and believable among potential consumers, the problem is resolved:

> The big national brands tend to be developed out of existing products which have previously been regarded as commodity lines . . . Gillespie [Director of Sales and Marketing, Trebor] quotes Rowntree's After Eights as the shining example: 'They took a very ordinary product in confectionery manufacturing terms – a simple mint cream – and suddenly, brilliantly, gave it a new appeal and took it into a completely new market.' (Roter, 1980.)

There are products, however, which have neither an actual nor a creatable set of characteristics of value to mark them out from competitive products.

(2) *Affordability.* To advertise with effectiveness is almost invariably expensive. Thus to advertise inexpensively is, more often than not, to advertise ineffectively. In his advertising decision the product manager is frequently confronted with the alternative of ineffective advertising or no advertising at all. As a profit-conscious businessman, he does better to choose no advertising at all. He may, alternatively, decide to restrict his advertising to a small sub-section of his potential target audience – either by geographic or media restrictions – such that at least this group is reached effectively. What he must avoid at all costs is to spread his money thinly simply because he has insufficient to do the job properly.

(3) *Competitiveness.* If the product being planned is in a market in which no advertising is being carried out, the product manager will have the wry satisfaction of knowing that his product's lack of advertising support puts it on a footing equal with all other products, but he will also suspect that whoever advertises first is likely to make an impact on the market-place disproportionate to the expenditure.

If the product operates in a market in which heavy advertising support is the rule, his product may suffer badly from want of it. The merry-go-round principle, in which each advertiser hesitates to cut his expenditure for fear of losing out to his competitors, probably accounts for a certain amount of unnecessary advertising in Western society. But, as with all merry-go-rounds, it is difficult to get off once you have elected to get on: few companies willingly take risks with their hard-won market shares.

(4) *Life-cycle.* The case for advertising a brand new product is overwhelming: the potential users of the product must be informed of its existence. The case for continuing to advertise a product which is measurably well known is less firm, though a strong case may still be made for it. The case for advertising a well-known product which has been declining for a number of years, has poor profitability and looks incapable of reviving is clearly very weak. The product manager will have to make a cold assessment of his product's position on its probable life-cycle graph and judge the value of advertising on the basis of its likely future. While such a judgement appears obviously necessary, many organisations appear to delay the withdrawal of advertising support from ailing brands that are clearly on the way out. Inasmuch as such a withdrawal may rapidly accelerate such a demise, perhaps the hesitation is understandable.

In making a decision about whether or not to advertise the product manager will once again be helped by an analysis of the evidence for the applicability of advertising – as to its scale, use of different mediums, timing through the year, competitive advertising, etc. – which he may glean from past data. Such analysis is, however, fraught with problems. Past advertising, whether deemed as effective or ineffective, will not readily reveal the relative importance of the contribution of each of the individual elements which go into an advertising campaign: the scale of expenditure, the pattern of expenditure through the year, the selection of the medium or the mix of media used, the creative quality of the advertising used, the scale and quality of the promotional support backing the advertising, the activities of competitors over the period being analysed, and so on.

Regardless of the problems of analysis the product manager will need to determine the desirability of advertising for his product, as well as the scale of expenditure he will require and will be able to afford. In addition to these fundamental points, he will need to outline both the style of advertising that the product requires and also the media that will serve it most effectively.

In these two decision-areas he is greatly helped by the professionals at his disposal: the advertising agency recruited by his company to handle the product which requires such decisions. In some of the larger consumer-goods organisations, there also exist advertising specialists recruited directly into the company to help the product manager with just these sorts of problems.

In the process of deciding that his product will require the support of advertising over the period covered by the product plan, the planner will have determined the specific objectives such advertising will need to achieve. These he will now incorporate into the product plan. As with other plan objectives they will require to be clear, realistic *and* quantified. Advertising objectives may include some or all of the following:

(a) Changes sought in *product-awareness levels* among users and/or distributors.
(b) Changes sought in *product image* and/or *company image.*
(c) Changes sought in *distributor behaviour*, e.g. stock increases, increased product promotions, increased shelf space.
(d) *Support for other promotional activity*, e.g. consumer promotion, major sales-force distribution drives.
(e) Changes sought in *consumer attitudes towards competitive products.*
(f) Changes sought in *level of consumer rate of product trial.*

(g) Changes sought in *consumer loyalty* levels.
(h) Implicit in (a) to (g) above, changes sought *in market share.*

The Creative Function

While many advertising agencies can boast of a range of competences in the broad field of marketing and communications, the two key areas for which most companies will hire them are, first, the creation of advertisements, and, second, the ability to select and buy the time or space into which these advertisements will be placed.

The making of advertisements is a function referred to as the *creative function.* Put simply – even crudely – it consists in the activity of finding the pictures and the words which will succeed in selling the product, from the art and the copy departments respectively of the advertising agency.

The product manager will provide a great deal of guidance to the advertising agency in terms of the product's marketing background, and his plans and aspirations for the product. He will also ensure that all of the specific targets and general objectives for the product are made clear to the agency. In the case of an enlightened product manager, he will even encourage the agency to undertake its own complete review of the product's position in the market-place and engage its personnel in close and detailed discussion of future marketing plans and alternatives available in the marketing of the product.

Armed with this information, and fortified by all the discussions, the agency will immerse itself in the production of a creative solution to the product's advertising needs. Their recommendations, discussed and perhaps modified, will become the *creative platform* on which the advertising for the product will be based.

Two essential factors make the acceptance of the agency's creative recommendations – advertisements – less easy than the acceptance of the media recommendations they will make:

(1) *The number of creative alternatives available for selection is infinite.* Given enough time and money, an adver-

tising agency could provide 20 or 200 creative platforms, all of which they would judge as equally effective in solving the product's problems. Knowing this to be the case, few companies who hire the services of an agency ever feel they have been recommended a platform which is incapable of improvement; the temptation to do so is strong. (Agencies would describe this as tampering rather than improving.) From the point of view of product planning, the implication is that agreement of a creative platform is usually lengthy and requires to be started early for it to be concluded in time for the annual product plan.

(2) *The effectiveness of a creative advertising solution is very rarely provable* except through use: even then 'proof' of success is difficult to lay positively at the door of the creative platform. It is, of course, possible to apply certain tests to advertisements – tests of recall, of the ease with which copy points can be remembered, tests as to whether the meaning of the advertisement is ambiguous or not, tests as to whether the models used in a television commercial are, or are not, believable, attractive, etc. – but no testing system has yet been devised which clearly correlates a test measure with a forecastable level of sales, or a change in the direction of the sales graph. The acceptability of a creative solution to an advertising problem rests ultimately largely in the area of intuition, however strongly a logical case for one particular solution may seem.

Selection of Media

Less uncertainty surrounds the selection of the media that will carry the agreed creative platform. The number of alternatives, while considerable, is finite.

To a considerable extent the media-selection process involves much automatic exclusion of unsuitable media. The process of media selection, while it may contain a considerable intuitive content, is much more easily capable of proof as to its effectiveness and is based on arguments of logic that are much more readily appreciated than those available in the selection of a creative platform.

The media planner in an advertising agency has available to him considerable quantities of hard, factual data which enable him to choose readily between less competent and more competent media schedules. Inasmuch as the sums of money spent on the buying of space and time for advertisements is a major, if not *the* major, expenditure, in the product plan, the plan will contain schedules which detail such buying, as well as the rationale behind the selection of the media chosen.

A number of factors will determine the media selected for a particular product:

(1) *Target audience.* Clearly the media chosen will be measurably competent in its reach of that section of the community considered as the most likely to buy and use the product.

(2) *Product characteristics.* The qualities of the products, and the impression of them that the advertiser wishes to create in the mind of the prospective customer, will be important in determining the media selected. Many foodstuffs benefit from high-quality colour representation. Products which are unique in the way they behave in action, for example food mixers or electric razors, may gain great advertising benefits through the use of media – television, the cinema – which are animated.

Products which are expensive to buy and complex in detail – cars, motor-cycles, insurance, for example – may benefit from the use of media which allow the advertisement to carry a great deal of product detail and with plenty of time to read the small print: national press, general-interest magazines, etc.

(3) *Product awareness.* The media selected may well depend on the level of user awareness of the product. Posters, for example, require to have their messages absorbed in seconds. They therefore restrict themselves to very few words and fairly simple images. They may serve as a perfect vehicle for reminding the public of the existence of a well-known product and they may serve poorly in introducing a new, unknown product.

(4) *Cost effectiveness.* The cost of reaching the target market will vary, even when competitive media cover identical audiences. Costs will help to determine the specific vehicles selected.

(5) *Atmosphere.* Every medium has its own distinct characteristics which makes it, to the reader or viewer, different from every other medium. Even when the target market is reached equally competently by two or more media, the selection may take into account the extent to which each possesses a character which is seen to enhance or damage the desired image of the product. Many companies hesitate to advertise through the 'girlie' magazines entirely on account of this factor of atmosphere.

(6) *Regional Facilities.* In determining the media to be employed when there is either a limitation on funds or the intention to sell the product in only one part of the country, certain media have to be excluded because they have no facilities for regionalisation: television requires that the smallest region in which advertising can take place is usually much larger than is available through the regional press. Most national newspapers and magazines have limited or no facilities for regionalising advertising campaigns.

Advertising Appropriation

Having established clear-cut objectives in his advertising plan, the marketing planner will wish to determine the cost of meeting such objectives. In arriving at this figure, there are two main problems:

(1) While most advertising agencies have some experience of what it costs to achieve specific advertising objectives, no two marketing situations are identical, and the same sum of advertising expenditure may result (with different products and in different markets) in quite different effects on the market-place. Thus, at best, such a calculation is an enlightened piece of intuition.

(2) Quite modest and apparently sensible advertising objectives frequently cost much more than the product can profitably afford. The advertising appropriation required by the exigencies of the brand's market position often turns out to be a sum two or three times what the brand can bear if it is to make money. This is simply due to a combination of two facts: the high cost of advertising, and the limited value size of most consumer-goods markets. As a result, this 'task'

approach to deciding on advertising expenditure – clearly the sanest approach – may have to be jettisoned for some less logical approach, e.g. the 'percentage of revenue' or the 'what the product can afford' or the 'parity with competition' approach.

Whichever approach is taken in the setting of the advertising appropriation, the planner will be required to make it a firm recommendation. In this he will be greatly helped by the advertising agency, which may want to outline alternative strategies, both as to the media to be used and the level of expenditure to be budgeted in order to reach the agreed objective.

The product plan will contain media schedules which clearly outline the media selected, the frequency of the advertising across the year, the size of advertisement (in the case of print advertising the size of the advertisement and in the case of cinema, television or radio the time length of the commercial), an estimate of the audience which the recommended campaign will reach (millions of homes or housewives or car drivers, etc., according to the target audience being sought).

Bearing in mind the cost of advertising, both of itself and as a company marketing expenditure, such detail is necessary to explain and justify the many thousands of pounds many product plans call for in their advertising recommendations.

CONSUMER AND TRADE PROMOTIONS

Through his activities in the preparation of the annual product plan, the product manager's principal goal is concerned with achieving maximum consumer satisfaction with, and hence consumption of, his product. At the same time, he is seeking to obtain the maximum profitability for his company in the process of delivering such satisfaction to the consumer. In this delicate balancing act between the two elements of his single goal, the product manager does well to remember that all of his plans may amount to nothing if he fails to provide the ingredients which will enable the sales force to execute his product policy.

While the major impediment to selling a product with success is an unwillingness on the part of the ultimate consumer to buy it, the sales force has an important intermediary obstacle to overcome: the resistance of the middlemen – wholesalers and retailers, agents and factors – to buying the product in the first place.

To the sales force it is the job of the product manager to make sure that it is given sufficient marketing power to enable it to help it in overcoming the middlemen's resistance to buying. To the sales force the use of extensive and effective advertising is one weapon it may use in its selling activities: in consumer-goods marketing the distributive trades are increasingly demanding that the products they stock should be supported by such advertising, as it helps to ensure a steadier and more certain flow of products from their shelves into their customers' shopping baskets.

But, equally, advertising is recognised by the sales force as a perk which only indirectly helps it in its task: advertising does not, importantly, provide the salesman with anything he can offer as a direct benefit to the High Street trader. After all, unless the advertising actually causes an increase in total consumption in the market, it must be seen by the trader as of greater benefit to the manufacturer than to him: from the trader's point of view, such advertising merely switches business from one brand he stocks to another he also stocks, frequently without the benefit of better profit margins or increased cash in the till.

Davidson, in his *Offensive Marketing* (1972), makes this point even more strongly:

> The interests of the manufacturer and the retailer are very different, and the cant which is talked about their having common objectives is misconceived. The manufacturer's aim is to increase sales and profits of particular brands, while the retailer is concerned to raise the total turnover of his store, and he doesn't particularly care which brand he sells in doing so. The manufacturer is also interested in furthering the image of his brand, while the retailer thinks about the image of his store. . . The manufacturer sometimes forgets that retailers have competitors . . . and that

they need the promotion allowances which manufacturers can provide.

In a somewhat similar way, while advertising provides the consumer with important information on new products, furnishes the consumer with a reminder of the products that are available in the market-place and reinforces the current user of a product with support for its continued usage, advertising fails to provide the consumer with any direct benefits to reduce the housekeeping bill. Hence the value of consumer promotions.

The development of trade promotions for his product enables the product manager to provide the sales force with direct support in its battle to achieve the sales required, while the planning of consumer promotions is geared to provide the end-user with direct additional benefits and, thus, additional reasons for continued usage and perhaps even continued loyalty to the brand.

The distinction between consumer promotions and trade promotions is not entirely clear cut. For example, a promotion involving a price-off pack may be exclusively planned for one multiple chain in the High Street. As such, the promotional discount, in being offered on the pack directly to the consumer, is clearly a consumer promotion. But, in being made available exclusively to one account, it must be considered a trade promotion as well.

For the sake of some clarification:

1. *A consumer promotion* has, as its primary aim, the conferring of a special benefit, which is not normally part of the product on sale, *direct to the consumer.*
2. *A trade promotion* has, as its primary aim, the *conferring on the middleman* of a benefit which is not normally part of his regular terms of trading.

Consumer Promotions

There are a very wide variety of consumer promotions offered by manufacturers to their consumers, and there are also an increasing number of promotions offered by the High Street shops themselves, though in a large number of cases these are both organised and paid for, at least in part, by the manufacturers.

Among the more widely used types of promotions used by consumer-goods manufacturers are:[4]

Direct benefit at point of purchase

Price reduction
Extra product
'Buy one, get one free'
Free gift
Trading stamps

Mail-in offers

Self-liquidating premiums
Coupons/wrapper collector schemes
Competitions on-pack/advertised
Free information/catalogue

Credit

Credit cards
No-interest hire purchase
Hire-purchase facilities
Credit-card payment facilities

Door-to-door delivery

Coupons
Free samples
Product information
Personality promotions
Press advertisement coupons

Service promotions

Free maintenance
Parts-paid servicing schemes
Product guarantee

Charity promotions

Manufacturer/consumer
sponsors national charity

Thus the product manager has a large array of types of promotions from which to choose. He will base his choice of consumer promotion on a wide variety of reasons and then select the promotional scheme according to the requirements both of the promotional objectives and also of the constraints imposed by the product, its circumstances and the market in which it operates. While there are as many objectives to specific consumer promotions as there are marketing problems to be solved by them, some useful generalisations may be drawn from business practice. Most consumer promotions will seek as their objectives one or more of the following:

(1) *Impact on-shelf.* Consumer promotions that are featured on the product itself ('on-pack' is the term used by marketing planners) are equivalent to a redesign of the prod-

uct's packaging. As such they are recognisably more eye-catching than the standard pack to which the consumer has become acclimatised. Such a redesign is planned to reactivate consumer interest in the product: it may cause the consumer who is not a user of the promoted product to notice its existence instead of ignoring it.

(2) *Improved display.* Most High Street shops which are competently run will attempt to maintain a fairly rigid control over the amount of display allowed for any one particular product; the amount of display is usually related to the importance of the brand in the market – the market leader being given more space on the shop shelf than the no. 2 brand, and so on. For many High Street multiples the control may well be exerted from Head Office. A consumer promotion is a very successful way for a manufacturer to add to the number of any one product being displayed on the shelf (to add to the 'shelf-facings, as it is called). Additionally, if the promotion appears to the retailer to be interesting enough, it may be possible to double or treble the display of the product by obtaining off-the-shelf displays: special positions in the shops, away from the normal display point, in dump-bins or, more frequently, stacked high at the ends of the display gondolas, to greet the shoppers as they enter the store. It is the experience of both manufacturers and of traders that such extra displays result in major increases in sales.

(3) *Increased stock-holding.* One of the problems that bedevil consumer-goods manufacturers is the knowledge that, no matter how successful a product may be, there always exists a proportion of distributors who will not have the product in stock at any one time of the year. While the level of this 'out-of-stock' phenomenon must be partly dependent on the efficiency of the maker's own manufacturing and distribution competence, it is also dependent on the desire of most traders to hold as low a stock of all products as possible – thereby maintaining the minimum amount of capital tied up in stock-holding. The result of the subsequent inefficiencies that arise in the maintenance of product flow to the consuming public inevitably causes the consumer to switch brands at the point of sale: even loyal users of a product may take an alternative brand if their regular brand

is not available in the shop where they normally expect to buy it.

From the point of view of the distributor, he may well lose nothing – he really does not care that much which brand the consumer buys as long as a product is bought in *his* shop. From the point of view of the manufacturer, he has lost a sale which is irrecoverable. The advent of a consumer promotion almost always results in the distributor being willing to take above-average stocks of the promoted product, and such a promotion thus tends towards a sharp – if temporary – decline in the number of distributors being 'out of stock'.

(4) *Improved selling programme.* In providing his product with an on-pack promotion the product manager is providing the sales force with a non-standard item to sell. Such an item provides the sales force with a hook on which they are better able to hang an interesting story in their sales pitch to the potential buyer. A major consumer promotion which is of interest to the trade provides a valuable foundation on which to base the more mundane sale of other standard lines that must also be sold in order to keep the manufacturer in business. A product without any promotional activity through the year will be found more difficult to sell. For this reason good consumer promotions are generally greeted with enthusiasm by a sales force. It restimulates their interest in the product and enables them to sell it with more confidence: it is good for sales-force morale, always a point of concern to the product manager, who depends on the salesmen's determination to succeed with his products if he is to achieve his product plan objectives.

(5) *Improved consumer benefits.* The ultimate rationale behind consumer promotions is the provision of an additional benefit to the consumer over and above any that the consumer normally derives from the regular, unpromoted version. By its provision the product manager hopes:

(a) To attract, by its additional impact and display, the attention of those who have never heard of the product and to get them *to try the product for the first time.*

(b) To persuade existing users of his product *to continue to use* it as a result of the special offer.

(c) To persuade his new and regular users *to remain loyal to the product for longer* by reducing the frequency of brand-switching through increasing the stock in their own homes above its normal level: many consumer offers, by providing a bargain, stimulate the purchase of multiple units of the product when it may normally be bought singly.

(d) *To increase his share of the market*, hopefully on a semi-permanent basis, by fulfilling the three objectives above.

An important distinction made in the selection of types of consumer promotions is made by Davidson (1972):

> In building a strategy for a promotion one of the most important issues . . . is whether to aim for consumer *trial* or *loading*. Trial involves gaining a single purchase from a wide range of consumers, many of them non-users, whereas loading seeks a number of purchases from a smaller group of consumers, most of them probably regular users. Trial is obviously the more positive of the two strategies, and is followed by most brands with growth ambitions. The theory behind it is that if you have a superior product, and consumers can be persuaded to try it, they will be so impressed by the experience that some will continue using the brand even after the promotion is over . . . Loading is most frequently followed either by brands that are badly on the slide or by perfectly healthy brands faced with a powerful new competitive introduction. In each case the object is to hold on to the brand's regular users and to prevent them from slipping away quietly to competitors.

While the benefits to the organisation of successful consumer promotions can be considerable, their use, and in particular the type that is used, is subject to a variety of constraints:

(1) *Cost.* Ideally, marketing planners would frequently choose to make promotional offers available only to irregular or non-users of their product. Good promotions are expensive and, if made available to all consumers, are likely to subsidise heavily existing and loyal users of the promoted product,

clearly a much more wasteful exercise than is desirable. However, it is not possible with most promotions to select the consumers who, to the manufacturer, are likely to be the most cost-effective. In that sense consumer promotions tend to be wasteful

(2) *Bargain image.* The bargain-basement quality of most consumer promotions makes them ideal for many products but, equally, makes them unsuitable for other products. This image constraint on the use of such promotions accounts for their non-appearance on most prestige or premium-quality items.

(3) *Frequency of purchase.* Many types of consumer promotion are unsuited to products with a relatively low frequency of purchase. Mail-in offers of free gifts on the basis of, for example, 'Gift coupons cut out from the top of six packs', or collector schemes like the pre-war cigarette card schemes, simply cannot be used on products which are purchased two or three times a year.

(4) *Trade hostility.* Certain types of consumer promotions which are otherwise successful have incurred the hostility of the distributive trades. Any promotion which requires action on the part of the shop manager or the girl at the check-out tends to be frowned upon by the retail trade. Additionally, the trade frequently mishandles the promotional deal: for example the notorious matter of misredemption of coupons.

(5) *Legal constraints.* As with most marketing activities, the product manager needs to take care over legal constraints in the design and application of consumer promotions.

The administration of consumer promotions is often complex and time-consuming, involving a surprisingly large number of non-marketing functions in the organisation. From the point of view of the production facility, the non-standard product often required in consumer promotions means that the production function will have to organise special packaging and production lines to produce the promotional product, perhaps requiring new materials to incorporate in production, and additional labour to cope with it. The purchasing function will be asked to buy the materials and print required, the sales and financial department will need to agree special promotional price lists from which the sales force can sell the product, design companies will be needed to create all the design work and artwork required for the printers. When the product manager has reached a decision concerning the consumer promotional programme for his product, he will need to provide both the objectives of each promotion and also considerable details concerning each, in order to ensure that such essential factors as cost, quantities of product to which the promotion applies, timing and the materials required will be made clear.

As a final touch to the promotional programme outlined in the product plan, the product manager will want to show how such a programme of consumer promotions fits in both with the timing, through the year, of the advertising effort, and also its synchronisation with trade promotional activity of the product: he will produce a schedule of such activities in the form of a *promotional calendar.*

Trade Promotions

Both the advertising and the consumer promotions planned for a product provide the sales force with considerable help in its task of selling the product to the distributive trades. For the sales force the ultimate weapon is, however, the money and the benefits that are available to give directly into the hands of the distributor.

Properly structured and administered, all of these benefits ought to be made to work to the advantage of the consumer: an offer of 'one case of product free with every ten sold' to the middleman should enable the middleman to pass on this discount in the form of lower prices to the final consumer. In practice, of course, a great deal of the money manufacturers give to the distributive trades never gets passed on: the middleman, like all other business men, wishes to add to his profits and will inevitably use trade promotional money for this purpose.

As far as the product manager is concerned, the purposes of trade promotional activity are very similar to those served by consumer promotions: they serve to improve the product's impact on the shelf, to increase stock-holding, and ultimately to increase consumer benefits.

Crucially, however, the product manager will know that *its ability to improve the salesman's selling programme* is by far the most important function of the trade promotion programme.

(1) *Co-operation.* If the manufacturer feels he is embattled in a market full of strong competitors who are aching to do him down, so does the High Street retailer. Both recognise the importance of each other for their livelihood but both wish to secure the best advantage from their interdependence. A good trade promotion by the manufacturer is a surety to the distributor of the manufacturer's goodwill and a realisation of their mutual needs. If the trade promotion is tailor-made and exclusive to the needs of the individual distributor, so much the better: it gives the distributor an advantage, however temporary, over his High Street competitors. As the market power of the High Street multiple grows, so does the development of promotional programmes which are specifically tailored to the multiple's own marketing programmes. However, at present, most trade promotional programmes are still designed to be applied across the full span of the distributor groups for whom they are targeted: grocers, chemists, cash-and-carry wholesalers, etc. But, in either case, the essence of this activity is in the development and maintenance of manufacturer–distributor co-operation.

(2) *Commitment to product.* The great majority of distributors of consumer goods are happy and willing to stock a particular manufacturer's product if such a product has a reasonable position in the market-place, especially if the particular market is a rich one and the product category is consumed in a high proportion of all households. Very few distributors would refuse to stock the leading brand in any such product group represented on their shelves. The case for stocking the second and third most important brand is less strong but still generally accepted. The development of a strong trade promotional programme for any product reduces the chances of that most dangerous of manufacturer's hazards, the loss of a section of the distributive trade through the rejection of his product from its shelves. For the no. 3 brand downwards, obtaining and retaining good distribution through the major grocery outlets, for example, is becoming increas-

ingly difficult. If the power of the manufacturer is great – Heinz, Procter & Gamble, the Unilever companies, Cadbury–Schweppes, for example – much pressure may be brought to bear to ensure the maintenance of distribution of even a small or declining brand. However, should the manufacturer's power be less than great he will need to look to an effective trade promotional programme to hold his head above water, and keep the distributors committed to stocking his product:

> Phillip Hanscombe, Marketing Director of the Decorative Paints Division of ICI, talking about Dulux, says: 'We're lucky in that we're brand leaders, whereas the second, third and fourth brands in almost any market today are under pressure [in holding distribution] because of factors like retailers rationalising their stocks and the growth of own-brands. (Roter, 1979a.)

With the heavy emphasis naturally laid on the sales force as the pivotal point around which the trade promotions programme turns, the product manager will necessarily seek to develop such a programme in close consultation with sales management. It will be the sales department which will inform him of the special problems that require to be overcome in the year ahead in maintaining or developing the company's selling efficiency, of the members of the distributive trades who continue to resist stocking a product, of those who require greater incentives to continue to stock the product, of those who are threatening to de-list the product, and of the general climate of business and how it may affect the sales force over the following year. The product manager will himself have some first-hand evidence from his own sales visits ('field trips'), accompanying salesmen as they make their round of selling calls.

To this information the product manager will add information available to him from market research and unit sales tabulations. From such data he will attempt to analyse the areas of sales-force strengths and weaknesses, try to identify the types of accounts (as customers buying from the sales force are called) who are successful with his product and the types that are less so. He will compare one geographic region with another to establish regional variations in brand share, distribution, out-of-stock levels of his product, and he will try to pinpoint the reasons for such differences to see if greater sales efforts – and hence trade promotional moneys – could rectify regional anomalies.

From this information, and its analysis, the product manager will draw up a trade promotional programme. It will probably be a complex programme that takes into account the needs and trading practices of the different types of accounts called on by the sales force: the type of promotion that would be planned for cash-and-carry wholesalers might well be different from that which would be applied to small supermarkets, which would in turn probably be different from the promotion created for a superstore operation like Tesco or Asda.

While the type of promotional schemes used varies widely, on the whole the variation is considerably narrower than is used in consumer promotions: the distributive trades are primarily interested in price-reduction promotions, either in a straight price reduction off the invoice billed to them or by the provision of free goods (e.g. one case free with ten). In addition, some of the distributors also seek cash from manufacturers to enable them to advertise to consumers the special price made possible by the promotional allowance offered by the manufacturer – advertising posters in the store and advertising through the local press. While such schemes probably account for the majority of trade promotional money, other types are used: wholesaler/salesmen incentive schemes, display competitions between the branches of a High Street multiple, and a multitude of others.

As in the specifications for his programme of consumer promotions, the product manager, in outlining his programme of trade promotions, will need to make clear the objectives of each element in his programme, the quantities of the product he plans to have sold at special promotional prices and the timing schedule, related directly to the sales force programme of selling cycles.

One final factor requires discussion: the thorny subject of budget responsibility for trade promotional expenditure. From the point of view of the marketing planner – the product manager – he has been given profit responsibility for the achievement of an agreed programme of activity on his products. He must therefore ask for, and obtain, an agreed sum of money to spend on the promotional weapons that enable him to meet his responsibilities. Advertising and consumer promotion expenditure are crucial to this end, but (equally) so are the sums spent by the sales force in setting up trade promotions. Therefore, he will argue, any expenditure for his products must be his to control – authorise, monitor and change if it is so required.

From the sales force's point of view it requires considerable flexibility in handling promotional moneys, taking the opportunity to set up worthwhile deals as and when they occur. A senior salesman, sitting in the office of the buyer of a multi-million pound High Street multiple, may well have the 'official' promotion turned down and the buyer may suggest to him an entirely different product promotion which the salesman knows is not strictly 'allowed'. Should the salesman have to make a call to the product manager to obtain his approval? What if the product manager requires time to think about it (sensibly enough)? The buyer wants an immediate answer. He wants to deal with the salesman direct and wants a decision without referral to Head Office.

The problem is real and requires solving. The answer is to retain responsibility in the hands of the product manager *and* to give flexibility to the sales force. This magic is created by the simple process of recognising that only a limited amount of the total trade promotion money requires to be free-floating and relatively unplanned. Such a sum is set aside by the product manager in the knowledge that it is discretionary to the sales force. In return the sales force keeps the product manager informed as to how the money has been spent and what objectives it was planned to achieve. Agreement over the size of the sum involved is of course a matter of negotiation between the planning and the sales functions of the marketing department.

SALES AIDS

In addition to providing the sales force with a competent programme of promotional activity for his products, the product manager may well be involved in the organisation of many of the sales aids which the salesmen require in order to carry out an effective selling job for the products they handle. The availability of selling samples, presentation material, booklets and leaflets may all be wanted by the sales force in presenting and selling both the regular line of products and the special promotional products and offers.

To encourage the distributive trades in giving the products the fullest possible display on their shelves, the product manager and the sales force will be keen to ensure the availability of point-of-sale material: printed material which advertises the products along the shop shelves, in the shop window, on counters, etc. Much design ingenuity goes into the production of mobiles, 'shelf-talkers', window units, dump-bins, and a quantity of printed cardboard that will advertise the product. Manufacturers will also get involved in more expensive constructions of steel and plastic: floor or counter-standing containers to hold assortments of cigarettes, nuts and bolts, bars of chocolate, pet foods, spices or razor blades; in this way there is a greater probability that stock will be kept and properly displayed to the benefit of the manufacturer who has provided these 'merchandisers'. The manufacturer will even provide a service to the shop in ensuring that these merchandisers are constantly kept stocked, by organising a regular visit from personnel who are recruited solely for this purpose. (Just to confuse matters, such individuals are also called 'merchandisers'.)

The product planner will have a responsibility for providing a comprehensive array of such materials required by the sales force. Such responsibility will be shared with sales administration, who will be in the best position to determine what sort of sales aids are required, and in what sort of quantity, to serve which specific selling objectives: the product plan will need to outline these facts as well as provide an estimate of their cost – which will be charged to the product's promotional budget.

PUBLIC RELATIONS

To complete the promotional programme for his product plan, the product manager will need to develop and outline a schedule of public-relations (PR) activities.

In the same way that he will require the professional services of advertising specialists in drawing together his plans for advertising his product, so the product manager will need specialist help from public-relations practitioners when he comes to organise his PR needs.

The majority of companies make use of the services of public-relations consultants. The larger companies will, in addition, employ one or more public-relations officers, perhaps a full public-relations department. It is these people to whom the product manager will turn.

The public-relations needs of different products require different activities, but the essential objectives of public relations are the same for all products and for all organisations: communications objectives. While product advertising will seek to communicate single-mindedly to a narrow target – the potential purchasers and users of the product – the communication target for public-relations activities will encompass a far broader set of audiences: all individuals who, publicly or privately, should, or are likely to have, any form of contact with the product and the organisation producing it. Thus the purpose of the product's PR programme is to develop and maintain good, informative contact with all the product's 'publics': from the public who will consume the product, the groups who will distribute it, the media who may comment on it, the population local to the factory who will be involved with the product (one way or another), the civil service bodies who may help to regulate it, to the government which may pass new laws affecting its success.

The essence of a good PR programme for a brand is to forecast and plan for the likely information and problem-solving needs that may be involved in the product's future activities.

The activities to be planned will range across a very wide spectrum of the communication process: press conferences, factory visits, sponsorship schemes, leaflets, brochures, receptions for local government officers, technical conferences and publications, donations to charities, information hand-outs to the media on product activities, the contribution of articles to trade publications, and the hundreds of other activities which are aimed at ensuring a constantly informed and favourable view of the actions being planned by the product manager on his products. Much of the public-relations plan will be concerned to protect the product from misjudgement and ignorance as to its qualities, hence the emphasis on information. Much of the work involved will also involve the setting up and maintaining of *good relationships between the company and individual members* of all of its publics through its public-relations personnel, rather than any determination to obtain free publicity in the media. It often proves a good investment to spend time and money developing good relationships with individuals who are influential in the organisations which can affect the product's success.

Unlike the planning of a product's formal promotional programme – advertising, consumer and trade promotions – the public-relations programme for a product has to be partly formal in its planning and partly informal and *ad hoc.* Much of the work of the PR consultant is involved in dealing with unplanned and unexpected events which are incapable of being forecast. Such consultants may be said to earn their fees largely on the basis of their competence in coping with the unexpected, with skill and good judgement: a sudden strike may threaten to damage the company's image, an unfortunate accident involving a company product threatens to harm loyalty to the product when it receives widespread publicity, a consumer promotion may misfire and create unexpected and publicised resentment with the consuming public – these are the sort of events for which competent consultants are required so as to minimise harm to the company's long-term profit calculations.

Chapter 7

Sales Policy

By the provision of his promotional programme the product manager has already put into the hands of the sales force a considerable weaponry with which they can expect to fight their battles over the year to come. As such the programme is an important part of the sales policy he has planned for his product.

There remain, however, certain further important items which need co-ordination and planning between the product planner and the selling arm of marketing:

(a) Trade terms: the price list.
(b) The unit sales forecast.
(c) Trade coverage.
(d) Salesmen's incentives.

TRADE TERMS

It has already been stated that the revenue that a product will earn will result from the unit sales achieved, multiplied by the average price at which such sales are made. So much is obvious.

The practice of the majority of business organisations is to sell their products and services not at one single price to all their customers but to vary the price to different groups of customers. This is not to be confused with the practice of varying the price of the product during periods of trade promotion, a price discount which is usually planned for a limited and finite time period – say from two weeks to two months. The business practice being discussed here is the availability of a standard, basic price on a product to one customer which is different from that available to another customer, throughout the year.

As a result of this practice, the company *price list* usually consists of a list of products against each of which is a *scale* of alternative prices. The principal factor which generally determines which price applies to which customer is that of the *quantity of business* which that customer does with the company: it is a quantity-discount scale. The rule, very simply, is: the bigger the customer, the cheaper the price. A price list might look as follows:

	Scale				
	1	*2*	*3*	*4*	*5*
Case price	*1–5 cases*	*6–19 cases*	*20–99 cases*	*100–499 cases*	*500+ cases*
Product *A* (1 x 12)	£1.20	£1.15	£1.10	£1.00	£0.90
Product *B* (1 x 12)	£3.60	£3.45	£3.30	£3.00	£2.70
Product *C* (1 x 6)	£0.80	£0.77	£0.73	£0.67	£0.60

The company offers three products, *A*, *B* and *C*. *A* and *B* are sold in cases containing a dozen items (1 x 12), whereas product *C* is sold in cases of six. (Despite decimalisation, most goods are still sold in gross, dozens and half-dozens.)

The prices quoted are for *one* case. A small shop will buy at scale 1, the poorest price, while the cash-and-carry operator, ordering in large quantities, will take advantage of the scale 5 price, the best on the list. The difference in price *between these two extremes* – maintained for all three products – is a discount for the scale 5 buyer of 25 per cent on the base price, scale 1. (Scale 5 is, in other words, 75 per cent of Scale 1.)

The rules which determine the level of discounts are determined partly by those which the trade traditionally wants, partly by those which the companies are willing to give and partly by the balance of power between particular companies and particular trades. They vary widely between markets.

There are no rules which necessitate that all the discount levels given on one company price list should be the same:

one listed product might give a maximum of 25 per cent on the base price while another product might only provide a discount of 22 per cent or go up to 27 per cent. Usually, to make life simpler for both the trader and the salesman, scale discounts are maintained throughout the price list of any one company.

Some organisations use order-value as the scale criterion: instead of 1–5 cases, 6–19 cases etc. in the example, it might have read £1.50–£7.49, £7.50–£28.49, etc.

One further complication needs to be ironed out. The decision as to which scale price applies to any one particular customer can be made in a number of different ways according to the interpretation of 'scale prices'. Using the example, a salesman might apply scale 2 (6–19 cases):

1. When the *order for each product* on the price list totals between six and nineteen cases. OR
2. When the *order for all three products* combined totals between six and nineteen cases. OR
3. When the trader ordering at one particular time orders less than six to nineteen cases, but he *usually orders between six and nineteen.* OR
4. When the salesman never gives the trader scale 2 on the basis of 'normal' or past ordering, but only when each order justifies it.

Each company will need, in other words, to establish clear rules of scale-price interpretation, otherwise the individual salesman may give himself the freedom to interpret it in the way he chooses, with much discrepancy from salesman to salesman.

From the point of view of the product manager the price scales that are established for his product, and the way that price list is used by the salesman, have an important bearing on the revenue that his product will achieve. It can now be seen that that revenue is determined by the number of units (cases) that are sold at each scale price, the discounts that such scales represent, and the accuracy with which the scale-price system is used. The product manager will need to review:

(1) *The level of discount on his scale prices.* He will need

to be convinced that such discounts are necessary at the level at which they have been set. Quite frequently such levels have developed without much apparent reason in the dim and distant past.

(2) *The application of the discounts.* Faced with the need to meet high sales targets, salesmen not infrequently move a customer 'up the scale' to give the customer better scale prices than are strictly allowed by the company, thereby pleasing the customer (but usually without enhancing the size of his orders).

(3) *Changes in the structure of buying.* As products undergo changes in the market-place, increasing and decreasing in importance, such changes may be accompanied by a change in the number of unit sales bought at different scale prices. If there is a proportionate increase in the number of scale 5 buyers (using the example once again), *the average price* at which the product is bought *may well go down* (scale 5 buyers pay less for the product). If there is a decrease in scale 4 and 5 buyers and an increase in buyers at scales 1, 2 and 3, *the average price will go up.* The product manager will need to know of the existence of any such trend and of its likely development in the future.

The opportunity for changing the basic terms on the price list occurs when there has to be a change in it, because of the need to put up prices, as a result of cost increases, for example. Any such changes will need to be carried out with care: not unnaturally they are unpopular with the distributive trades, which after all, are relying on the price-list discount levels to maintain *their* existing profit levels and profit ratios.

THE UNIT SALES FORECAST

As has already been mentioned, the unit sales forecast is one of the primary outputs of the operational marketing plan. Such a forecast is initiated, product by product, within the pages of each of the organisation's individual product plans. It becomes, inevitably, the prime determinant of the activity of the sales force. As such, its agreement with the management of the sales operation is essential. In his forecast the product manager will want to convince sales management that his forecast is a reflection:

(a) Of what has been achieved with the product in the past.
(b) Of the opportunities that are presented to the product in the market-place, i.e. of the correctness of the product manager's diagnosis of the market.
(c) Of the pressure that will be applied to the product in the next year as a result of the planned marketing activities.
(d) Of the sales force's ability to seize those opportunities, supported by the product's planned activities.

In agreeing the forecast, sales management is fully aware that it is committing the sales force to a promissory note of achievement. It will therefore want to agree the forecasted sales only if it is truly convinced of its probability. Depending on the level of change over the past that the forecast seeks, the product manager will have to sell his forecast to the sales force to ensure that it feels fully committed to an achievable plan.

In the knowledge that he will have to persuade sales management of the realism of his forecast, the product manager will do well to involve them in detailed discussions of his plans well before he becomes fully committed to them. Such contact and co-operation become part of the product manager's means of motivating the sales force in its future tasks.

TRADE COVERAGE

Part of the communication process between marketing planning and the sales force is to be found in discussions concerning the way in which the sales force calls on the distributive outlets selected to sell the products to the ultimate consumer. Ideally, the product manager requires the sales force to call frequently on every outlet which carries the group of brands which form the market in which his product operates; if his product is a cigarette, then the product manager will ideally want personal sales calls on every stockist: every newsagent/tobacconist/confectioner, virtually every grocer, every public house and hotel, every restaurant, etc. Such an ideal is achievable, but at a cost – and cost-effectiveness – which would be prohibitive. Thus all sales forces are involved in the process of selecting the outlets that *should* be called upon from a total universe of outlets that *could* be called upon.

While the selection process is the ultimate decision of the sales function, the vested interest of the product manager is clear and powerful. He will need to review the present trade-coverage structure of the force that will sell his product, in the hope that a judicious analysis of his product's needs may help the sales force to decide how it might change and improve its call-cycles, call-frequency patterns and the number and nature of the accounts that should be handled.

Apart from influencing the basic call structure of the selling operation, he will also want to provide whatever help and information is needed by the sales force in the tactics it employs in the actual process of selling – the *sales pitch.* Increasingly, the product manager supplies material for sales presentations to important accounts and may even attend such presentations in order to provide support to the salesman making the sale to his major customer.

SALESMEN'S INCENTIVES

As a final point to add to his sales policy, the product manager may develop discussions with sales management on the provision of incentives to individual salesmen during periods of sales-force promotions on his product. The sales force will, of course, have arranged incentive schemes of its own to encourage the salesman to achieve the sales targets, but there are benefits in the pooling of money and resources in this area, between selling and marketing planning, especially when a major sales effort is required to achieve what are seen as difficult targets.

Chapter 8

The Revenue Account

Dominating all his thinking, determining the breadth and scope of his plans for marketing activity, shaping all of his product recommendations, the *revenue account* for the product will ultimately decide the validity of the product manager's product plans. In presenting his recommendations to the company – first to his immediate superior and ultimately to the governing individual or body of the organisation – the product manager may expect to find that, however bored and indifferent they may be to the details of his recommendations, close attention and much interest will be paid to the product's forecasted *revenue account*,[5] the final and most meaningful measure of product planning.

In order that those reviewing the product plan may identify the amount of progress represented by the plan in financial terms, the revenue account for the year ahead is always drawn up in comparison with the previous year or two.

For clarification, an example of a product plan revenue account is shown in Table 8.1. The account, for an entirely hypothetical product, is concerned with showing the finances for the product for 1979, on the basis of the product plan, in comparison with the forecast for 1978 (it must be a *forecast* because the 1979 plan will be written *before* the end of 1978) and the actual results for 1977.

The reader does not need to be concerned at this stage with the precise definitions of the terms used: gross revenue, cost of goods, etc. This will be taken up in some detail when the subject of *financial control* is examined.

To the experienced eye, used to the lay-out of the figures, the financial results of the plan (1979) look attractive and interesting:

(1) *Profit.* If the businessman inspecting the account is

Table 8.1 *Product X (1979 Plan: Revenue Account)*

	1977 Actual		**1978 Forecast**		**1979 Plan**		**1979 versus 1978**	
Case sales (000s)	840		910		1,000		+90	+10%
	(£000)	(%)	(£000)	(%)	(£000)	(%)	(±£000)	(±%)
GROSS REVENUE	1,600	100	2,000	100	2,300	100	+300	+15
Cost of goods	752	47	940	47	1,058	46	+118	+13
NET CONTRIBUTION	848	53	1,060	53	1,242	54	+182	+17
Marketing expenditure								
Advertising	96	6	120	6	161	7	+41	+33
Consumer Promotion	32	2	60	3	46	2	–14	–23
Trade Promotion	48	3	80	4	69	3	–11	–14
Other	16	1	20	1	23	1	+3	+15
Total	192	12	280	14	299	13	+19	+7
MARKETING CONTRIBUTION	656	41	780	39	943	41	+163	+21
Indirect costs								
Sales force		7		7		7		
Manufacturing		10		10		10		
Administration		6		6		6		
Distribution		6		6		6		
Other		3		3		3		
PRE-TAX PROFITS	144	9	140	7	207	9	+67	+48

only concerned with profits – and the direction they are taking – his eye will immediately alight on the bottom figures of the extreme right-hand column, which compare the plan year with the current year. He will note that the plan aims to achieve a 48 per cent increase in pre-tax profits, an additional £67,000. He will also notice that this is a reversal of a trend in which profits were moving downwards in the years prior to the plan: both in cash terms (£144,000 down to £140,000) and as a percentage of Gross Revenue (9 per cent down to 7 per cent, at the bottom of the first and second columns).

(2) *Unit sales.* The strength that lies behind the profits figures is strongly supported by the case sales, which are planned to reach 1 million in 1979, a 10 per cent growth over the current year and a continuation of the growth pattern established in the current year (top row of figures reading across the columns), i.e. the 1978 case sales were themselves 8 per cent up on 1977.

(3) *Costs.* The magic of a 48 per cent increase in pre-tax profits cannot be explained by a 10 per cent growth in case sales (after all, for 1978 there is a growth of 8 per cent forecast in case sales together with a forecast *decrease* in profits). The account indicates that the strong profits position is achieved because of a number of cost factors, in combination with strong sales factors:

(a) The cost of goods is planned in 1979 to come down as a proportion of gross revenue from 47 to 46 per cent. This will be achieved by cost reductions, or by planned price increases being greater than estimated cost increases, or both. The extreme right-hand column shows this: in 1979 the gross revenue is planned to go up by 15 per cent over 1978, but the cost of goods is estimated to go up by only 13 per cent.

(b) While more cash is to be spent marketing the product in 1979 than in 1978 – the total marketing expenditure is up from £280,000 to £299,000 – it will represent a lower proportion of income than such expenditure did in 1978: 13 per cent as against 14 per cent.

This revenue-account example shows the benefits both of comparative data and of the crucial financial concept of *ratios.* Above all, it underlines the importance to the marketing planner – and to the general management of any organisation – of his work only having meaning when it is translated into a statement of profit or loss. The most creative, imaginative and dynamic of product marketing plans are simply dross if they fail, in the long run, to make a sound contribution to the product's revenue account.

Chapter 9

Performance Objectives

There is an ever-present trap encountered in the process of planning: the pitfall of laying down generalised, vague and largely unmeasurable targets as the end-benefit of the planning process. The unwary product manager may show great skill in establishing problem-areas in the marketing of his product, display considerable ingenuity and flair in the provision of a creative solution which is likely to resolve the problems he has uncovered, and then complete the process with a statement of intention such as 'This plan is intended to strengthen the product's distribution among independent grocers' or 'The new advertising strategy will increase consumer awareness of the product's major performance benefits.' These objectives are worthy, well-intentioned and have a ring to them calculated to bring confidence and hope to the organisation for whom the plans are being written. However, their vagueness is likely to raise unachievable hopes and, thus, possible disappointment. If the product manager then succeeds in increasing the distribution of his product among independent grocers, it will cause it to move from one level to a higher level. He should state the precise level which serves as the starting point of his objective, and forecast the likely level to which that point will be raised: 'This plan is intended to increase the product's distribution among independent grocers from a current sterling distribution [see later] level of 48 per cent to an estimated 70 per cent level by the end of the plan year.' Similarly with the consumer-awareness objective: 'The new advertising strategy aims to increase awareness of the product's major performance benefits [stating what the are] from the current level of 52 per cent to 75 per cent of all housewives [if that is the agreed target audience].' Virtually all objectives are both forecastable and measurable.

There are, of course, some reservations which qualify the product manager's ability to quantify all his objectives:

(1) There are some areas which remain obdurately unmeasurable. e.g. a car manufacturer may decide, from previous qualitative research, that the desired image for his new model should be one of 'rugged masculinity'. Such a quality is probably very difficult to measure, other than very indirectly, and is thus difficult to quantify as a target of consumer response.

(2) The product manager may well work for an organisation which does not feel it can afford more than a limited amount of market-research information, however much it recognises the value of such research. The objectives he sets are perfectly measurable but *will not* be measured.

Clearly there are likely to be a very large number of areas in which the setting of objectives makes a valuable and important contribution to the organisation's marketing competence. The list is too long, and is too dependent on the particular product in its particular market at any one particular time, to be covered here. However, it will be useful to list some key areas which require the provision of quantified and measurable objectives within the product plans of the majority of consumer-goods organisations:

(1) *Unit sales.* A very obvious starting point. They, at least, are always quantified.

(2) *Market share.* This is directly connected with unit sales. The product plan will need to forecast the change, if any, to the product's share of the market. It is this market-share forecast which primarily gives justification to the unit sales forecasted. Of necessity, the plan will need to make a forecast of the change expected in the total market size and in the level of stocks which the market is forecasted to carry. Market size, stock levels, market share and unit sales are all interconnected (See pp. 209–24).

(3) *Sales-force marketing objectives.* These are a variety of essential targets which require quantification if they are to serve the plan meaningfully:

(a) *Distribution.* Already mentioned, such objectives are usually for 'sterling distribution'. This requires explanation. Any one universe of outlets (grocers, chemists, hardware wholesalers, etc.) may be looked at by the marketer in one of two ways. First, each outlet represents one unit out of the total units available for carrying stock of the marketer's product. If, in a universe of 1,000 shops, the marketer persuades 250 of them to carry his product, he may claim that he has '25 per cent *shop* distribution'.

Second, each outlet will be different in size, location and competence, so that some shops will achieve a greater level of sales than other shops in the universe. If, in his universe of 1,000 shops, the marketer is wily enough to persuade the most *successful* 250 shops to carry his product, his product will be sold in outlets that may account for 50 per cent of all the money being spent by consumers in the whole universe of 1,000 shops. In that case the marketer will know that his product has a 25 per cent *shop* distribution but a 50 per cent *sterling* distribution. It is rational in most cases to assume that a shop which has double the average income will sell a quantity of the marketer's product which is double that of the average shop. It is also sensible, given that most sales forces find it impossible to call on all outlets, that the shops they do call on are selected on the basis of scale of operation, i.e. on the basis of their contribution to sterling distribution.

(b) *Stock levels.* The product plan will require specific objectives concerned with the level of stock being carried in the pipeline between the factory and the end-user. If the average stock-holding of the product at the beginning of the year is eight weeks (theoretically that means that if the organisation supplying the product delivered no further goods, the product could continue to be sold for a further eight weeks before drying up) but fell to an average stock-holding of four weeks by the end of the plan year, the organisation would lose four weeks of average sales. Such an event, if unforecasted, is a disaster to the producing organisation: it represents a loss of nearly 8 per cent of annual sales (4 ÷ 52 x 100).

(c) *Regional variation.* Most products show variation in market share, distribution, stock levels, etc., from one geographic region to the next. Quantified objectives to improve the poorer regions and to further strengthen strong regions provide a stimulus to greater selling efficiency.

(4) *Advertising objectives.* Specific quantified objectives can be set, against which may be measured the efficiency of the advertising effort: changes in brand-name awareness, in copy-point awareness, in product-image parameters, in advertising recall, in media buying, etc.

(5) *Cost objectives.* A programme for the reduction of a product's direct costs requires to be specifically quantified: the timing of the cost-reduction exercise will need to be scheduled, as will its anticipated impact on the product's profitability and price.

In drawing up his product plan the product manager will always seek opportunities for the quantification of objectives – when to do so is likely to improve the efficiency of the marketing operation, through the organisation's ability to monitor and measure its progress towards achieving its rational and desirable goals.

Chapter 10

Contributors to the Product Plan

Up to this point in the examination of the product plan the impression has no doubt been given that it is the exclusive work of the product manager: he alone masterminding all of the detailed plans, heroically emerging from his seclusion to announce to the world brilliant solutions to unsolvable problems.

The facts, of course, do not bear out this interpretation of his role. It is true that he will be expected to choose an interpretation from all the diagnoses in which he will be involved, and it will be his responsibility to generate the basic plan which will resolve the problems and opportunities that will emerge from such analysis. He is also expected to act as the primary catalyst to the execution of the product plan and, ultimately, will be considered to have great responsibility in its success or failure. But, in common with most activities outside those of artistic creativity, the activity of analysis, creativeness, execution and control of the product plan are very much the outcome of the combined efforts of a whole galaxy of individuals, or, in that grandly sincere military word, *teamwork.*

While the product manager is controlled by his marketing manager, he, in his turn, controls nobody (well, perhaps an assistant and a secretary). While virtually every other planner in the organisation is expected *to enact his plan*, the product manager is expected *to persuade others* that they must carry his plan out for him: the manufacturing plan is enacted by the manufacturing department, the purchaser will buy the materials he has planned to buy, the finance office will raise the capital it has determined is required, but the product manager will have to ask his sales, manufacturing and other colleagues to progress his plan for him. It is the inevitable role of the marketing planner and follows logically from the description and value of his job.

If he must rely on the co-operation and activities of other functions, the product manager will inevitably expect to be involved in establishing, if nothing else, the feasibility of his recommendations before he can finalise the product plan. There is very little point in his planning to make radical alterations to the specifications of his product if the material purchasing function is unable to meet the specifications, if the manufacturing function has no facilities for producing it, the distribution function has the wrong type of equipment to handle it and if the financial function believes the company cannot afford the additional capital required to start it up.

In the end, the wise product manager will cherish the contacts he makes in all departments of the organisation in the very knowledge that he constantly requires their advice and active consent – ideally, enthusiasm – in order to create a potentially sound plan in the first place, not to mention the enablement of its execution.

Thus there is a need to examine the other functions which contribute to the creation of the plan, and the role they therefore fulfil for the marketing-planning function. The major participants in this co-operative event are the functions of:

(a) Manufacturing and purchasing
(b) Finance
(c) Research and development
(d) Distribution

and, within the marketing function itself,

(e) Sales
(f) Market research
(g) Advertising
(h) Public relations

These functions will be examined here in their relationship to the marketing-planning function only as far as they are involved in the creation of the product plans. A fuller examination of the interplay between these functions and the marketing-planning function will be left until later.

(a) *Manufacturing and Purchasing*

The product planner will know that the single most concrete reason for his plan's potential failure will be the inability of the manufacturing arm of the organisation to produce the product in the quantities required at the required time. He will therefore make every effort to ensure that such an eventuality does not occur. This he achieves most effectively by making certain that the manufacturing function is involved at the earliest possible moment in the creation of the product plan. He will recognise the necessity for this co-operation particularly when his plan calls for changes to the product, either in its manufacturing specifications or in its production scheduling patterns. Such changes will also affect the purchasing function, who will also need to be informed, at an early stage, of any new formulation or packaging requirements.

(b) *Finance*

From the financial area, the product manager will be concerned to obtain forward estimates of the cost of his product, so that he may calculate its implications on the pricing policy and the size and scope of his promotional budget: the changes in the product's cost structure may seriously narrow or dramatically broaden the options that are available in the product's marketing plan.

A good deal of the product manager's time, when he is working out his product plan, is concerned with calculating alternative expenditures, costs and pricing options. In this he requires the co-operative eye of the trained accountant to watch over his work and recommend financial alternatives, double-check the accuracy and validity of his calculations and generally to provide professional advice in financial matters.

(c) *Research and Development*

The work of an organisation's research and development function usually makes available to the product manager two important tools for the development of his product policy: first, improvements to the product which may provide a marketing lever with which to obtain an improvement in the product's market share; and second, the development of new materials and technologies which may make possible important reductions in the product's cost structure. Regular contacts with the R & D function ensures that its work is known to the product manager and also gives the R & D function an opportunity to stay in touch with the requirements of the marketing function, and of the market-place.

(d) *Distribution*

Where this function is separate from both the manufacturing and the sales function – in many organisations the distribution function comes under the aegis of one of these two – the product manager will find it necessary to maintain a close liaison with distribution to ensure a proper co-ordination between marketing, manufacturing and distribution: all integrally interlocked in the chain of product availability to the market-place. For example, changes to his product affecting its size, weight and the configuration of the carton or case in which the product is shipped out of the factory will have an effect on distribution's efficiency and its schedule of work. As such, the product manager requires distribution's advice and it needs to know of his plans.

(e) *Sales*

Much has already been made clear as to the level of co-operation required between product planning and the sales function. Its involvement in the product manager's plan is considerable and essential. Not only must the product manager produce a plan which the sales function feels is achievable in the market, but both sides will also need to agree as to how such achievements will be measured and reviewed. It is above all with the sales function that the product manager must most closely identify, for it is this area which is the prime executant of the product plan that he devises.

(f) *Market Research*

Underpinning all the diagnostic work on his product, measuring all the results of his plans, the market-research function will provide the product manager with a stream of information which will enable him to establish the success or failure of his plan in many of its aspects. Only the market-research function can provide him with the detailed historical data on which his plan is based, and only it will keep him in touch with the changing patterns of trade and consumer response, in behaviour and attitudes, to the execution of the plan.

(g) *Advertising*

The input provided by the advertising specialists available to the product manager to the product plan has already been mentioned. In particular, the advertising agency may serve the product manager, and the marketing department generally, as a form of second-string planning function. Given that the agency has the seniority and confidence required, it may stand sufficiently apart from the company for which it is working to provide it with the valuable insight of an external, dispassionate viewer of the marketing plans. The marketing-planning function that resists this advisory service and suppresses it does so at its peril: marketing plans that turn out to be inept and unrealistic are frequently seen as such by the advertising agency before such plans are ever enacted. A competent agency will unhesitatingly, if diplomatically, make its views known to its clients, and seek to eradicate the worst planning excesses.

(h) *Public Relations*

The contribution of the public-relations specialists to the product plan has already been discussed in Chapter 6.

Chapter 11

Plan Approval

The product or brand manager system of marketing planning and control came into existence in industry primarily as a result of the realisation that the maximisation of potential revenue and profits for each product was not going to be achieved until *one* individual within the organisation was delegated planning and controlling responsibility for each *individual* product, brand or market category.

Such a system brought into being the certainty that each major product – each revenue and profit earner – within the organisation would receive the over-all, single and undivided attentions of an individual who had no other responsibility: the product manager has no line responsibility for any of the 'doing' activities on a product – buying, making, financing, selling, advertising, invoice-processing, credit-giving, etc. He has the task only of ensuring that all of these necessary functions are carried out on the plan he has devised. He can thus be single-mindedly concerned with his product's present and future health without becoming involved in the detailed operational mechanics required to maintain that health.

Logically the plans of a planner who has no 'doing' responsibilities will serve no purpose unless his activities and his plans *become the agreed plans on which the organisation is willing to base its 'doing' activities:* unless the buying and manufacturing, the selling and the financial functions understand that the annual product plan is *the* marketing plan which will officially determine all of their activities concerning those products.

Quite simply, annual product plans require a system within the organisation which provides them with an official stamp of approval, so that everyone in the organisation may know them to be 'the marketing plans' on which to base their actions for the coming year. While many activities will require approval of the organisation's senior management at their planning stage, approval needs for the marketing plans of a company are particularly acute, and this for a number of reasons:

(1) *Public nature of marketing decisions.* A major proportion of the organisation's marketing decisions are made known to the public. Indeed, the purpose of such decisions is directed at public awareness: new advertising campaigns, the launch of new products, the change of existing prices, packaging changes, public-relations releases to the media. Thus the organisation is much more vulnerable to the commission of marketing errors than it is to mistakes made by other functions of the organisation. This is particularly important for those companies who choose to emphasise their company name in promoting their products and services – such companies as Shell, Ford, Heinz, Hoover, Gillette, Cadbury, Avis, Sanderson.

(2) *Marketing decisions are revenue decisions.* The organisation's marketing decisions directly affect the organisation's income: its sole means of survival. Decisions in other company functions tend to be much more restricted in their effect on revenue – they are largely decisions concerning expenditure.

(3) *Irreversibility of marketing decisions.* Because marketing decisions are made in the limelight of the consuming public, such decisions are much more difficult to reverse than incorrect decisions, in, say, the purchase of machinery or the laying down of rules for personnel relationships within the organisation. It is, of course, perfectly easy to withdraw an unsuccessful new product or reverse a price-increase decision, but not without some hazard both to public opinion and to the attitudes of the middlemen trading with the organisation.

(4) *Marketing as activity co-ordination.* For the marketing-planning function to operate successfully it is required that the marketing planner be accepted by all functions of the organisation as a central co-ordinator of company activity, directed to achieving the required revenue. This may inevitably be seen as interference in the autonomy of departmental

responsibility. The marketing function tends to affect, in a marketing-orientated organisation, other functions much more than these affect marketing.

(5) *Risk level of marketing decisions.* The level of risk involved in establishing new marketing policies tends to be much higher for the organisation than that arising through changes made to its other policies. For one thing, the amount of 'science' involved in arriving at marketing conclusions is always seriously restricted. For another, nearly all marketing assumptions are based on forecasts of human response, a notoriously unpredictable area regardless of how scientific the data and the logic applied to the marketing problem. Finally, the costs involved in the taking of many marketing decisions are frequently high and the losses consequent on failure are, thus, hard to bear.

Because of these factors it is self-evident that the senior management of most marketing-orientated organisations are unwilling, and unlikely, to allow any complete autonomy of decision-making power to the marketing function. While the Board of Directors of major companies may take an enlightened view of delegation among many of its functions – 'Decide what you need to do, do it and then tell us what you have done' – it will almost certainly require greater involvement, and vetoing powers, in its relationship with the marketing function.

Different organisations will of course resolve such a problem in a variety of different ways. At one extreme they may simply refuse to create any centre of marketing responsibility outside the Boardroom (with the consequent emasculation of the marketing function). At the other they will require the submission of all marketing recommendations for approval, but reserve the power of veto only in cases of overwhelming doubt as to the wisdom of a limited number of marketing projects.

The approval systems employed by industry will of course show almost as much variation as there are companies. Many consumer-goods companies have a system of checks and balances built in to their marketing function: the product manager will submit his annual product plans to scrutiny and discussion with his more senior marketing boss, a marketing manager. Together they may then submit the (modified) plans to the marketing director. He will need to ensure not only that the plans are sound but also to establish that they are capable of enactment, i.e. that the production function, selling function, buying function, etc., have been involved in the planning such that they feel that what the plan requires of them is achievable.

Once each of the plans has been reviewed and approved in principle by the marketing director, it is then his function to pull together the separate product plans into a grand design which will then reflect the over-all marketing efforts of the organisation. It is at this point of the proceedings that some of the most critical measures of marketing competence emerge: the first estimate of the organisational profit and loss account for all products combined, for the following year; the estimated sales unit targets; the over-all calendar of selling and promotional activities.

Should such estimates appear unsatisfactory, further planning – and revisions to existing plans – may have to be made. For example, the total revenue which is to accrue to the organisation may be insufficient when set against strategic targets set by the organisation in its strategic (long-range) plan; or once all the individual product plan requirements for sales-force activity are merged together, it may become evident that the sales force will require some serious reorganisation in order to cope with the new requirements.

When all these problems have been resolved and the marketing director is convinced he has managed over-all to use the organisation's resources to maximum marketing effectiveness, then the marketing plan will be submitted to the company approving body (be it the Board of Directors or the managing director or a marketing plan committee, for example).

The net outcome of all these activities is the emergence of an officially approved plan, or set of plans. Once the plans have been approved, the man delegated to motivate, persuade, bully or otherwise ensure the enactment of the plan now has the official backing of the organisation's senior management: the product planner will now set about translating the plan into reality, with the full support of those who are the ultimate decision-takers in the organisation.

PLANNING CALENDAR

Bearing in mind the complexity of this planning process, and the time required to present such plans for company agreement, and to obtain approval or to revise such plans as may be required, the chronology of marketing planning may cover a wide time span.

Assuming a fairly smooth and uneventful transition from initial product planning to a final and approved annual marketing plan, the time required from start to finish may run as follows:

		Weeks required
1.	Synthesis of market-research data; analysis and diagnosis; establishing problems and marketing opportunities.	2
2.	Studying alternative marketing tactics; obtaining agreement as to feasibility from other company functions; devising and writing the initial plan.	4
3.	Presentation and discussion with marketing manager; redirection, recalculation and generally replanning.	2
4.	Presentation to and discussion with marketing director; revisions as required	1
5.	Presentation of full marketing plan and/or product plans to senior management for approval; revisions as required.	1

Many other organisational functions will not feel able to start *their* annual plan operations until approval has been given to the marketing plan. They themselves may require six to ten weeks for the development of their plans. Thus the total time span required for *marketing* planning may be only ten weeks, but to this must be added a further six to ten weeks before an *annual operational company plan* can be completed, a total of sixteen to twenty weeks. Assuming a planning year for the company which coincides with a calendar year, marketing planning will need to start in August in order for a company plan to emerge by early December, for the year which commences on the following 1 January.

There are a number of important implications involved in the lengthy time-scale of operational planning as outlined above:

1. The time-scale of *forecasting* is one of eighteen months ahead, and not of twelve months. To that extent the phrase 'annual planning', while correct, is misleading; it is in fact 'eighteen-months' planning'.
2. The market-research data available for analysis and diagnosis may be out of date by the time the new planning year, on which it is based, starts.
3. A considerable level of discipline is required to ensure that planning time-schedules are adhered to; any failure to be punctual leads to planning bottlenecks and, consequently, over-hasty planning.
4. Bearing in mind the speed with which marketing circumstances can change against the relatively long lead-times for marketing plans, organisations need to remain very flexible in their willingness to change – even jettison – formal plans, should circumstances indicate such a need.

Part Two

Operational Execution and Control

INTRODUCTION

Much of the remainder of this book will be concerned with the marketing activities involved in turning the plan into a reality. It will be assumed that the annual marketing plan (the sum of the individual product plans, to which is added the plan produced by sales management as to how the sales force will enact and administer the product plans) has been reviewed by the organisation's senior management and has been approved. The organisation, still struggling to achieve its current-year targets, is nevertheless poised to set out on its next year of business. The maps have been produced, directions chosen and agreed, expenditure budgets authorised, all departments properly briefed and alerted as to the new forecasts to be met, new schedules of activity to be started. The sales force, after the very brief Christmas respite allowed to recover from the traumas of trying to meet impossible last-minute sales targets to ensure the achievement of the current year's forecasts, is optimistically (if a little cynically) ready to resume its endless battle in the market-place to achieve a new set of sales targets.

From the point of view of the marketing function, the work in which it will now be involved will follow a chronological sequence – which may serve as the basis for its review:

1. *Product-availability control.* Materials, labour and machinery will be assembled to ensure the availability of the product in the market-place. Marketing will be involved in

ensuring that the flow of required products is continuous and that no sales are lost as a result of any discontinuity in supply.

2. *Selling control.* The marketing function, responsible for the selling activities of the organisation, will need to establish systems of monitoring and controlling such activities to ensure the most efficient achievement of the forecast sales.
3. *Promotional control.* The sales force will be supported by a year of planned promotional activities. Marketing will need to measure and control the effectiveness of this programme.
4. *Financial control.* If the most meaningful measure of the success of its operations is financial, the marketing function will need sound routines and procedures to ensure that control is applied in this most vital area.
5. *Control and market research.* Many of the systems an organisation will use in its control of the major parameters of marketing efficiency will rely on the availability of reliable and meaningful data from the market-place. The role of market research is pre-eminent in this area.
6. *Marketing and senior management control.* The activities of the marketing function require the closest involvement of the organisation's senior management. Marketing will need to operate effective systems of reporting to the organisation's senior management to ensure their ultimate control of decisions essential to the organisation's continuing health.

Chapter 12

Product Control

MARKETING VERSUS MANUFACTURING NEEDS

In an organisation which has learnt to value the benefits that accrue to it from the adoption of a full marketing orientation, the marketing and the manufacturing functions will be in accord over the paramount necessity for product always to be available to meet sales orders. While the agreement is genuine, there nevertheless exists quite logical grounds for a clash of interests between the two functions which makes the guarantee of product delivery less easy to achieve in practice:

Long Production Runs versus Marketing Flexibility

To the man responsible for the proper functioning of the production operation, great cost efficiencies are to be had by employing extended production runs, particularly in the manufacturing industries producing mass-production products on long lines of machines which operate sequentially on the product. The ability to improve operating speeds, reduce material waste and thereby generally increase productivity is frequently dependent on being able to employ the production lines on the *same* product, day after day, week after week. Any proliferation of products which require to be made on the same machines, the proliferation of variations of the same product – for example, from a manufacturing viewpoint the addition of a non-standard label or an insert in the pack both require a change in manufacturing specifications, procedures, quality-control checks, etc. – reduce the production manager's ability to manufacture as efficiently as the machines and the labour will allow.

From the point of view of the marketing planner, the number of products must proliferate according to marketing requirements, and the number of variants of existing products simply reflects marketing's planning needs. The more important and successful the product is, the greater will be the frequency with which, from a *manufacturing* point of view, it will be 'varied' from its 'standard' form.

While the marketing-orientated production manager will accept the necessity for this variety, he will always know that such variety results in his utilising labour and machinery at less than full efficiency. As a professional, he will instinctively resent such waste and will put pressure on the marketing function to reduce it by a mitigation of their production-flexibility requirements.

Stock-holding

Manufacturing operations usually maintain two forms of manufacturing stock (to differentiate it from other stock like office furniture, food for the canteens and paper clips for the secretaries): raw-materials stock, waiting to be turned into finished product; and packed stock – stock of finished product waiting for delivery to customers. The capital the company requires to hold such stock is usually considerable, so there is a constant pressure to keep it at the lowest possible level. For packed stock, the lower the level, the higher the probability that an out-of-stock situation will occur on some of the product lines made by the organisation. Maintaining efficiency in packed-stock levels is the responsibility of the manufacturing function, not that of marketing. Ensuring a continuous availability of product to customers is, however, marketing's responsibility. Quite simply, this means that marketing ideally requires high stocks of all products, while the company will always strive to keep stocks as low as possible, to save on capital-investment requirements.

This problem becomes particularly acute when the item manufactured has a high value, and the market is sensitive to sudden fluctuations of consumption brought on by the exigencies of economic circumstances. A recent example occurred in the US car market, when circumstances lead to a sudden –

and unforecast — decline in the rate of car sales, leading to huge stockpiles. *Fortune Magazine* wrote.

> Stephen Overman, at Booz-Allen & Hamilton [Consultants], points out that inventory levels must strike a balance between powerful, conflicting interests within a corporation . . . The marketing people want plenty of finished goods on hand to satisfy buyers' impulses. The production managers want a hefty supply of raw materials and parts so they can keep manufacturing costs down by running factories at a steady clip; financial officers, who must pay double-digit interest rates these days to finance inventories, fight hard to keep them down. (Meadows, 1979.)

Forcasting

The problem of the level of stocks to be held would be considerably alleviated if manufacturing schedules could rely on forecasts of sales which were accurate to a small margin of error, say ± 10 per cent on monthly sales of any one product. For very many products, in a wide variety of markets, such accuracy is unobtainable. This is not due to the incompetence of marketing personnel — a view widely held by many production managers. It is due to the inherent instability of the pattern of sales orders over the short term. One marketing research manager has written (see Meadows, 1979):

> The production department of the typical manufacturing company — often after a number of disappointments with sales forecasts produced by the sales department — usually has reached the point where it refuses to accept any estimate for its production scheduling other than that which could be derived from the order backlog of the company. The net result is the waste caused by hectic production rates, unsatisfactorily finished goods inventories, poor deliveries from suppliers of basic materials, and unsatisfactory relationships with customers.

Short of obtaining a monthly forecast of purchases from virtually every customer to whom the sales force sells, the ability to estimate when any one customer will buy a small or large quantity of the product is extremely limited.

While many forecasts of *annual* sales for any one product may be reliable to within a satisfactory margin, the monthly breakdown of that annual figure may well show inaccuracies well in excess of that margin: inaccuracies of up to ± 50 per cent are not infrequent.

For those products – and there are many – where the monthly sales may fluctuate well above and below the average monthly sale for the year, the problem is an acute one: one month's sales (one month accounts for 8.33 per cent of the year in *time* terms) may total 15 per cent of the year's total sales. In order to ensure continuity of supply, the marketing function would thus choose a minimum 'safe' stock level of, say, two months' supply of finished product (assuming the product is non-perishable), a level of stock that attracts unreasonably high costs by virtue both of its value and, for many products, of the storage implications: two months' stock of any nationally successful brand in a major market accounts for a lot of warehousing space.

Complexity of Changing Production Schedules

The manufacturing function's preference for production schedules based on long production runs is not only founded on the cost efficiencies it derives from such runs. The preference stems also from the complex nature of the production process – even for the simplest of products – and the problems that inevitably arise, in sheer administrative terms, in changing such schedules. A willingness on the part of manufacturing to reschedule production at the drop of the marketing hat may result in manufacturing anarchy: as much time being spent on changing machinery ('down time', as it is called) as in using the machinery for production, excessive 'run-up' time to get the machines run-in to the new product, chasing up materials to arrive on earlier-than-planned delivery dates, over-heavy involvement of maintenance engineering staff to cope with increased breakdowns due to constant machine changes, rearranging labour schedules to cope with changing production schedules, and the hundred and one dislocations that occur as a result of an over-flexible response to urgent marketing needs.

RESOLVING CONFLICTS

Close co-operation between manufacturing and marketing planning becomes self-evident, if such anarchy is to be avoided, and if, at the same time, the market-place is to be satisfied by the supply of the products it requires. In resolving such a need both functions will recognise the importance of a number of essential factors:

(1) *Regular contact.* The setting up of routine, informal but rigidly scheduled meetings between those responsible for product planning (marketing) and those for production scheduling (manufacturing) recognises the useful maxim that prevention is better than cure. Early warning is, above all, the element that makes possible the greatest manufacturing flexibility, and such meetings are geared to the provision of such warning.

(2) *Information.* One prime element of the regular production meetings – perhaps held fortnightly or monthly according to the speed and complexity of production changes normally sought – is the provision of marketing information in terms of the aims and purposes of the product plan. The marketing planner will soon come to realise that obtaining manufacturing co-operation is achieved very largely through motivation, which arises from both an understanding and an appreciation of the importance to the success of the product of the changes in production schedules being sought.

(3) *Forecasting.* Bearing in mind the known unreliability of the monthly detailing of an annual forecast for any one particular product, the decisions that one makes at production planning meetings as to what to produce and in what quantity are based on forecasts of unit sales that are being constantly brought up to date by the marketing planner, in an attempt to improve the guidance available to production planners. Forecasts for every product are made as frequently as there are production planning meetings, but they are made for only

a short time ahead (two to three months) or whatever may be the time span of operation relevant to the production operation. In addition, the marketing planner will also indicate whether the forecast of unit sales for the whole year is likely to change: it is important for the manufacturing function to know that fluctuations in monthly sales are *either* random variations *or* that they reflect a basic change in the product's market position.

(4) *Market bias.* Even after making allowances for a competent system for dealing with production scheduling problems, there will remain many occasions when there will appear to be an equal balance of pressures as between manufacturing and marketing needs. In such circumstances the benefit of the decision will almost invariably be given to the market's needs. Even when cost-effectiveness criteria clearly indicate that the consumer should suffer in order that manufacturing might benefit, the marketing orientation of the organisation will inevitably point to a solution favouring the market-place.

The extent and efficiency of the co-operation that exists between the marketing and the manufacturing functions is, of course, dependent on a large number of factors, both of competence and of goodwill. The level and quality of co-operation may well be markedly improved if the marketing-planning function takes the time and the trouble to show an active interest in, and a knowledge of, production operations. It is of value to both sides if, during discussions of the complexities of the machinery, labour and materials involved in the production process, the product manager can be clearly seen to have spent time on the factory floor, and has a clear grasp of the problems and opportunities available in the manufacturing of his products. It may also add to the organisation's manufacturing competence if the operational marketing plan has been presented to, and discussed with, manufacturing personnel, to give them an insight into the problems of marketing planning.

There are occasions, of course, when rescheduling of production plans may not be triggered by the needs of the market-place but may arise from the needs of manufacturing: unexpected breakdowns in machinery, the non-delivery of essential materials, a shortage of labour or the onset of an industrial dispute, all of which may seriously threaten the supply of product to the market. Marketing decisions may be required to enable the manufacturing function to solve such problems: decisions concerning marketing's willingness to accept changed quality-control standards on the finished product, the use of new standard materials which visibly alter the appearance of the product, the acceptability of temporarily altering the ingredients in the product's formulation by excluding a standard but unobtainable item, accepting increased product costs by contracting out some or all of the production processes during times of strikes, and so on.

In addition to the encounters between the two functions over the crucial matter of product availability, the marketing function will also require to co-operate with the manufacturing function in two other areas:

(a) Quality control.
(b) New product development.

Quality Control

Any manufacturing process requires some level of quality measurement of its product to ensure that it has achieved the predetermined level of quality specified. Most quality-control procedures are established on what might be termed a preventative basis: to ensure that the end-product lives up to a performance level which the buyer would reasonably expect as the minimum acceptable standard from the product and the failure of which is likely to cause dismay and disenchantment. Such a procedure, for example, might be laid down by a whisky distiller to ensure that each bottle is filled to a minimum level and to make certain that the incidence of underfilling is negligible or nil: the consumer would only notice *a failure* of such a quality-control procedure and he would never notice its application – it is unlikely that he would even give any thought to its existence.

Most such quality-control procedures are technical in nature and barely impinge on the marketing-planning function; they lie in the domain of the manufacturing function.

Nevertheless, the marketing planner will want to be aware of their detail, primarily because he needs to know of the level to which the controls on his products are applied: few procedures can give a guarantee of 100 per cent quality checking without adding dramatically to the total production costs. The level of product failure to meet standard quality criteria may be high enough to require that marketing set up procedures to cope with irate customers: systems, for example, which pay the distributor automatically for defective products so that he will unhesitatingly replace them without fuss and questions when they are returned by the consumer, or will carry out the necessary repairs and servicing to put the product right. Marketing will also require to be consulted when changes in the level of quality-control reliability are being considered. If the manufacturing function come to the conclusion that quality-control procedures require to be relaxed, say for cost reasons, so that the rate of likely defects is forecast to change from 1 in 10,000 of products sold to 1 in 5,000, the implications on the organisation's marketing position in the market-place will need to be considered. Marketing planning may well come to the conclusion that maintaining the current standards and increasing the product's price is more desirable than a change in the procedures and a subsequent increase in the defect rate.

Additionally, there are quality criteria which are much less technical in nature and for which quite arbitrary standards may be established: these are the criteria laid down, for example, on the quality of the colour printing used in the packaging of so many consumer goods sold in the High Street. Here the quality control is cosmetic in purpose: that is, the controls will have no direct technical relevance in the performance characteristics of the product but will, rather, have an effect on the buyer's perception of the quality of the product. Marketing planning will often be expected to lay down these quality-control standards. Frequently, marketing will insist that such standards are its responsibility. Clearly, the standards adopted will reflect the company's view as to what is an acceptable degree of variation from the 'perfect' standard, and this boils down to the answer to the question 'How wide a variation can we accept before the consumer is likely to be adversely affected in his willingness to buy the product?'

The standards that are adopted are usually resolved intuitively: the marketing planner and the quality-control manager try to view the item being judged on the basis that they are consumers, taking an average consumer view. Many of these 'cosmetic' quality-control decisions are of fundamental importance to the continued success of the product to which they apply, and they are in no way subservient to the more technical standards adopted in the production process to achieve reliable levels of product performance. For example, a decision to accept a cheaper board for the package of a major cigarette brand in the market may result in a loss of brand share – if consumers decide the brand is 'going off' – and a resulting loss of profit. In so far as consumers are influenced – in some markets like those of boxed chocolates and perfumes, very heavily influenced – by the product's appearance as much as by its performance, the quality-control standards laid down for both technical and cosmetic quality control have importance to the organisation in general and to the marketing planner in particular.

New-Product Development

The close relationship which requires to be developed between the marketing and the manufacturing functions for existing products needs to be even closer when marketing is concerned with the development of a new product. In a number of major areas, manufacturing feasibility, the buying and setting up of new capital equipment, the estimation of product costs, the time schedule for setting up production, the probable areas of production problems, are all likely to be crucial to the successful development of any new product. Where the new product is particularly complex in character and, especially, when it is sufficiently different in its production characteristics from those being manufactured already, the need for close co-operation becomes critical. The problem may only be solved with the setting up of a task force of production and marketing specialists, meeting frequently and solving the problems as they develop.

Chapter 13

Selling Control

Once the annual marketing plan has received official approval, the sales force is in receipt of a forecast of unit sales which it will need to achieve over the twelve months that follow.

While the forecast provides a complete breakdown of estimated monthly sales for every individual product line – including separate figures for every size, flavour, model, etc. – the first action of the sales force will be to reduce the figures to even finer detail by splitting out every quantity to provide targets for sales regions, areas and perhaps even the sales territories in which an individual salesman will operate. It may also split down the forecast by type of distributor, where the sales force sells to two or more types of business: retailers and wholesalers, cash-and-carry operators, grocers, chemists, etc. If individual accounts are big enough (Asda, Boots, Tesco, Woolworth, Sainsbury, etc.) they, too, may feature in the sales targets. The factors which determine which account, which region and which salesman get which targets are partly historical – relating to quantities sold previously – and partly what is required to be sold in the future. These sales targets are also quite often higher than is called for in the official forecast: there is a commonly held belief among sales managers that having to sell a high target will motivate the salesmen to greater efforts, whereas easily achievable targets are often demotivating and unlikely to inspire the efforts required to achieve them.

SALES TARGETS

The application of sales targets that refer to specific geographic areas and to specific individual salesmen clearly acts as a first and crucial control on the effectiveness of the selling operation: every man or woman in the sales force is aware of what is required of them and sales management will be able to monitor individual progress against targets and, it is hoped, rectify shortfalls against these targets. Much of the enthusiasm of salesmen – as well as much of their strain and anguish – is derived from the fact that they are always aware of their personal effectiveness, because their achievement against their targets is continuously measured: if they are successful in their work, the measuring device constantly informs them of their competence. If they are unsuccessful, their repeated failure to achieve targets is visible, and applies constant pressure to greater efforts.

SALES-ORDER ANALYSIS

With the advent of the computer in the world of business, the ability for increasing the effectiveness of this form of monitoring of sales effort has multiplied enormously. Most major organisations process their sales orders through a computer programme. By the relatively simple process of identifying every product on every order, and of identifying both the sales territory from whence the order came and the type of customer who placed the order, the computer may be used to produce detailed analysis of sales – daily, weekly, monthly or quarterly – to provide a major control on sales effectiveness. A typical programme of analysis might include some or all of the following:

(1) *Daily sales.* Product by product, a compilation of sales achieved on each selling day.

(2) *Monthly sales analysis.* Sales achieved in the month (or the period for which a target has been set), then accumulated for the sales achieved in the year to date. These figures can be shown percentaged against the official forecast for the month and year, and in comparison with sales achieved last year over the same time period.

(3) *Regional analysis.* Monthly, an analysis of the sales achieved, product by product, by the major sales regions,

sales areas and sales territories, actual for the month and cumulatively for the year to date.

(4) *Accounts analysis.* An analysis of sales achieved for the month and for the year to date, product by product, by all accounts specially nominated by marketing management (major accounts, problem accounts, etc.), again in comparison with those accounts' achievements in the previous year.

The potential for detailed analysis of sales achieved is on the whole much greater than the time and energy available for their analysis; the hard task for many organisations has been to *limit* the quantity of routine analysis in order that marketing and company management may not be drowned in a sea of computer print-outs which, as a result, never obtain more than a cursory glance. A classic instance of this 'data overkill' is quoted by John Winkler (1972): in an outline of marketing controls, a 'control information checklist' lists *over forty monthly reports*, many of them highly complex and packed with information, which should be available to sales managers and product managers, for action and information. As this works out at about two reports every working day, the scale of the problem is clear. In practice, of course, such a flood of information would simply lie fallow on the desks of those who were supposed to respond to it, with the danger that, instead of alerting management to developing problems, it would tend to envelop the problems in a permanent smoke-screen of numbers.

As a tool for the control of the sales achievement of the marketing plan, the analysis of sales orders provides some extremely valuable guidance to the action necessary to the *solving of sales-force problems.* It enables marketing planning and sales management quickly to identify *selling* weaknesses of products, regions, account types, etc. It will stimulate immediate questions – usually over the telephone the day the data analysis is received – to the salesmen in the field and, as such, it may result in obtaining an immediate and satisfactory answer. Above all, the proper analysis of sales orders will usually provide the first and fastest indicator that all is not well, alerting the organisation to an unexpected problem. But sales-order analysis has major shortcomings if it is used by the organisation as a means of interpreting product weakness or weaknesses in the product plan.

The level of achievement of sales orders is not necessarily a reflection of the ultimate end-user's satisfaction with the product, though in the long term of course a declining level of consumer purchases is bound to cause a decrease in sales orders. It is therefore hazardous and frequently wasteful in money and effort to respond immediately to a decline in sales orders for a product, by making the assumption that such a decline is a reflection of consumer dissatisfaction. Further and more illuminating data are required to establish the cause of sales failure. The problem lies in the fact that all other information from the market-place is slower to obtain than the evidence available from sales-order analysis; even *continuous* market-research measurements of consumer behaviour requires much more time to process than that required to process sales information.

In spite of the relative slowness of data from the market-place – and the consequent delays in marketing response to a marketing problem – it is this area of analysis which allows the most precise and rewarding measurement of the effectiveness of the sales force, and hence provides the strongest control element over its performance.

The principal market-research technique involved is the continuous audit measure of sales through the middlemen – the wholesaler and the retailer – which may be undertaken either by the company itself or, more commonly, undertaken by an independent research agency and sold by it to interested organisations. The use and value of the sales audit as a sales-force control mechanism will be examined in some detail in Chapter 16.

SALES-FORCE ADMINISTRATION

Refining the organisation's *sales forecast* into a set of individual salesmen's targets will make clear the goals and responsibilities within the sales organisation. Analysing the sales that result will make clear the extent to which the goals are being achieved. Between the goal and the achievement lies the whole body of sales administration practice which maximises the likelihood that the goals will be achieved. In the end – assuming competent products and equally competent marketing plans – it is the professional administration of the sales force which provides the organisation with the best possible chance of reaching its selling goals; it is a statement that seems not worth the making, were it not for the immense disparity in administrative competence between the best and the poorest sales operations.

It is necessary to examine the key areas of administrative control within the selling operation of a major consumer-goods company to understand the importance of sales competence to the achievement of the organisation's marketing goals. The key areas are:

1. Structure of the sales force.
2. Recruitment and training.
3. Marketing information.
4. Support services.
5. Supervision and assessment.

1. *Structure of the Sales Force*

One important element among the factors which affect the competence of the selling operation is the structure of the sales force, both as to its size and as to the way it is structured to deal with the universe of middlemen with whom it has to do business.

Size of the sales force. Given a fixed set of products, a limited amount of money and an agreed universe of possible customers, the decision as to the size of the sales force is always complex and rarely better than a compromise from the ideal. As usual the company with a small sales revenue is considerably more limited in its options than the bigger companies. For consumer-goods companies, the figure for the cost of the sales force that appears as acceptably affordable lies between 5 and 10 per cent of gross sales revenue: the former would be considered very reasonable and the latter very high.

The very large and successful company may be able to afford to take a pragmatic approach to the size of its sales force and simply establish it to meet the objectives of the selling function. For example, such a company may establish the following as its major criteria:

(a) To ensure personal calls are made on all outlets which currently carry any brand within the market in which the company's products operate.
(b) To ensure that these outlets are called upon with a frequency which will maximise stocking and display of the company's products and minimise the out-of-stock level.
(c) To ensure (a) and (b) are achieved with sufficient spare selling capacity to allow for the development of outlets not currently stocking products (*prospecting*).

The calculation of the number of salesmen required to ensure the meeting of this programme is relatively simple, if the number of outlets in the universe, the number of calls that can be made on average by a salesman, and the frequency of calling required, are all known (most sales managers can make fairly accurate estimates of all three). But the number of salesmen thus calculated would be very large and might well only be affordable by the largest organisations in the market.

This 'task' approach is often qualified by a further determinant of sales-force size: *the cost effectiveness of each selling call.* Clearly, to call on a large supermarket will, other things being equal, yield greater sales than calling on a small corner shop. There is a point on the scale of shop size where the amount of profit yielded by a call is smaller than the cost generated by making the call. As calculations go, the exercise of determining where that point lies is not very complex: the total costs, to the company, of the average salesman – including salary, expenses, car depreciation, pension contributions, cost of supervision and administrative costs, etc. – is divided by the number of calls he can be expected to make. If, for example, it costs the company £10,000 a year per salesman, and such a salesman will make 2,500 calls a year, the orders per call must yield a profit of at least £4 (the cost of the call) in order for the call to pay for itself, and more if the call is to be profitable.

If the call represents one of ten calls the salesman will make on any one account in a year (he calls once every five weeks on each of his customers, thus ten times a year), each account must yield a break-even profit minimum of 10 x £4 a year (£40). If the profit level on which selling efficiency is judged is at 40 per cent of sales revenue, then that £40 represents 40 per cent of the revenue earned from each 'minimal' account: £100 worth of orders (revenue) becomes the lowest acceptable level of annual business with a shop, to justify the salesman making a call. On this basis even large manufacturing organisations find that calling on the multitude of small outlets in the country has no cost justification: if they do make such calls, it is on the basis that they consider it is worth 'buying' distribution in order for their products always to be available to all their consumers regardless of the shop they enter.

Any decision which excludes a section of the retailing universe from being called on results in the direct control of the selling function being removed from the sales force and into the hands of those middlemen – wholesalers, agents, cash-and-carry wholesalers, etc. – who can be persuaded to perform the distribution function. This is part of the inevitable compromise between what is needed and what can be afforded. In practice, the middlemen may perform a satisfactory task, but rarely do they perform it as effectively as the sales force itself.

The size of the sales force does not only reflect the number of accounts on whom they would like to call and the frequency with which salesmen would like to call. Field selling is only one of a considerable number of functions which have to be taken into account in determining a high level of professionalism in selling. These include:

(a) *Trainers.* While much training will take place on the job, a nucleus of trainers who are free from selling responsibilities will usually be necessary to ensure a high performance standard of selling.

(b) *Major accounts administrators.* With the increasing importance to manufacturers of the large wholesale and retail operators, the responsibility for selling and administering to the needs of these major accounts is devolving increasingly on specialist groups of experienced salesmen operating full time on this activity.

(c) *Sales-force administrators.* While much of the routines and disciplines applied to a sales force are administered by senior salesmen in the field – regional and area managers – a good deal of administrative work is required to be carried out at the Head Office of the organisation to enable the sales force to function properly: checking and paying expenses, providing replacement cars, sending out new price lists, and so on.

(d) *Order processing.* People are required to check that all sales orders received are accurate, that packed stocks are available to meet such orders, that such stocks are available at sales depots across the country, and so on.

(e) *Data processing.* While computer operations will normally be carried on in industry by a function separate from selling, the need exists for competent liaison operators who have sufficient understanding both of the computer's capabilities and of sales' data needs to be able to maintain a smooth flow of required information to sales, marketing planning and general company management.

Structure. The factors that determine the structure of a sales force are as varied as the types of organisations involved in selling, the markets in which they operate and the particular problems that they encounter. In spite of this variety, a number of important principles operate among consumer-goods manufacturers:

(a) *Level of supervision.* Many of the major branded-goods operators, working in highly competitive markets, require a close and consistent level of supervision of the selling effort, at all levels in the hierarchy. For really close supervision and support of the territory salesman (the salesman at the bottom of the hierarchy), a ratio of one area manager to between six and ten salesmen is quite usual.

(b) *Number of products.* If a sales force is primarily an 'order taker' (as are many of the sales forces employed by wholesalers), the number of products that may reasonably appear on the order or price list is virtually unlimited. If, however, the salesman is expected to ‘sell’ most of his products, i.e. will be called upon to present the products to his customers and obtain orders with the help of special promotional support, the number of products on the price list must be limited. First, the salesman will only have the time to make three or four such product presentations at each sales call. Second, to give each product a chance of success, it will need to be promoted in this way two or three times a year. Third, most accounts will only be seen, at most, twelve times a year. From this information we can calculate:

12 selling calls a year (called ‘cycles’, ‘covers’ or ‘canvasses’)
4 products ‘sold’ per selling call
thus 48 product pitches a year
but each product promoted twice a year
thus 24 products can be carried and be ‘sold’.

From the point of view of the structure of the sales force, these calculations imply that when more than twenty-four products require to be regularly promoted (‘selling’), one sales force can no longer handle the products properly, and the time has come for consideration of a change to the structure of the sales force or its procedures.

(c) *Number of distribution universes.* If the company’s products are sold through a variety of different types of outlet i.e. chemists as well as grocers as well as hardware stores, the company may maximise the effectiveness of its call-route (the actual routes taken by the salesman as he calls on his accounts) by having the one sales force call on all of them. Alternatively, the company may decide that the selling techniques for each type require separate sales forces.

More frequently, an organisation will have products which sell to quite separate universes, and will structure its sales force into selling divisions responsible for each universe separately, though taking synergistic advantage of its central sales services which will service all selling divisions. This separation is most clearly evident where an organisation sells to industry as well as to the High Street operators; the sales disciplines of the two realms are sufficiently different to result in the separation of the selling effort.

(d) *Major accounts.* The structure of the sales force will also be affected by the number and importance of those accounts which are a dominant force in the company's market. As has already been mentioned, their existence may necessitate their being the responsibility of a group of salesmen separate from the general sales force. A similar specialism is also often organised to cope with such sales opportunities as selling to mail-order operators (including trading-stamp and cigarette-coupon operations), and HM Government contracts.

Other than the major accounts (often referred to as 'headquarter' accounts) the style required in selling ability and technique is somewhat different as between the distribution middlemen – the wholesaler in one form or another – and the retailer. Most major organisations will provide a sales-force separation between the two, operating separate wholesaler and retailer sales forces.

(e) *Merchandising.* With the advent of the self-service shop and, in particular, such large-scale shops as the modern supermarket, hypermarket and discount store, the professionalism of the distributor has improved dramatically since the end of the Second World War.

Such changes in retailing have developed their own problems, however, from the point of view of the manufacturer. First, the major distributors' professional awareness of the high cost of excessive stock has resulted in their maintaining very low levels of stock, relative to their smaller High Street competitors. As a result, an out-of-stock situation on any one product may occur very quickly. Second, to the housewife shopping in this type of shop the non-existence of a product on the shelf is frequently taken to indicate that no stock exists in the shop (more often than not, she is right in her assumption) and, as the contact between her and the staff of the shop is a good deal less personal than is the case in the old-fashioned counter-service shops, she will probably not ask for her regular brand but simply select a competitive brand. The combination of these two factors creates a hazard for the manufacturer, who is consequently more vulnerable to loss of sales due to the problem of 'out of stock' then he was in the past. To circumvent this problem there is an increasing tendency (strongly supported by the distributor, who has much to gain) for manufacturers to develop teams of salesmen who spend all their time merchandising – shelf-filling and organising emergency supplies for shops which are out of stock. Structurally this has an important bearing on the shape of the sales force.[6]

2. *Recruitment and Training*

It is true, as well as self-evident, that the quality of the performance in any function of the business organisation is no better than the quality of the personnel recruited to carry out that function. There exists, however, a number of important factors which necessitate perhaps greater care in the recruitment of sales personnel than in any other function in the operation: an under-performance by one salesman in any one territory may well result in an irreplaceable loss of revenue to the company. In other functions an under-performance by one individual will generally be made up by that of his fellow workers, and, in any case, is unlikely in the short term to affect revenue.

Further, the weak salesman may cause harm to the image of the company and may reduce the willingness of the distributors to buy from the company, damage that may take months, if not years, to rectify. From the point of view of the distributor the salesman *is* the company; if he seems incompetent, the company will seem incompetent.

Finally, a very competent sales force may be able to mitigate the weaknesses of a poor marketing plan, whereas a good marketing plan is much less likely to mitigate the failings of a poor selling operation. As a control factor in the achievement of the marketing plans, and of the forecast sales quantities, the organisation's selection procedures and their recruitment policies for salesman are thus of considerable importance.

An excellent recruitment and selection programme for salesmen will be much strengthened by a close attention to their training needs. This is not only concerned with the training of the basic disciplines and routines of competent selling – many of the staff recruited will have had selling experience – but is also concerned with training new recruits to those routines and procedures that are specific to the organisation and, importantly, providing them with knowledge about the company's products – such an essential part of the conviction with which a salesman sells.

3. *Marketing Information*

It is axiomatic that the product manager, if he is to be able to plan effectively, will ensure that he has available as much information concerning his products, and their performance in the market-place, as the ingenuity of the market researcher can extract and the organisation can afford.

He needs this information regardless of whether it reflects well or badly on the welfare of his products and his plans. Indeed, a strong case can be made for the priority of information which reveals failing and failure, in comparison with information which confirms success and achievement.

To many sales managers the advisability of passing on such marketing information to their salesmen is less clear cut. The salesman, they will argue, is in the front line of the marketing battle: isolated, self-motivated, an easy prey to disenchantment and disillusionment. Above all, the argument continues, he requires to be strongly motivated to sell successfully and cannot be expected to retain a high drive if he is told that the market-place is turning against the products he seeks to sell and for which, at all times, he is expected to hold unflinching enthusiasm. The information he should receive, the argument concludes, should be that which fuels his drive and which protects him from any unpleasant realities which may demotivate him.

The argument has doubtful validity. First, it rests on the unacceptable premise of paternalism: salesmen are not neurotic children who need to be protected from the hard realities of the problems they will be required to surmount. Second, it rests on false hopes of information security: sooner or later the salesman will detect that all is not well with his product – or, more likely, will hear the rumours from members of the organisation who are aware of the facts behind the problem. Third, it ignores the powerful psychological drives that lie behind the desire to rectify failure: the human spirit is as likely to be fortified by the need to solve problems as it is to acquiesce passively in the inescapability of disaster. Fourth, it encourages over the longer term the feelings of a clear division in the organisation between 'those at Head Office' and the sales force: those who are 'in the know' and those who are 'kept in the dark'.

The philosophy of protecting the salesmen from the more unpleasant realities of operational marketing problems is one that, mercifully, appears to be on the decline. The more progressive companies are increasingly providing their salesmen with more and more marketing information in the belief that, ultimately, to be better informed is to be better armed to cope with the stringencies of the selling operation. To an extent, of course, the change is occurring through pressures external to the selling organisation: within the consumer-goods field, the development of information acquisition by the *distributors* is growing apace.

Furthermore, with the growth in the power of the major multiple High Street operators has come a need, on their part, for information to justify their buying decisions. If a salesman is uninformed about the market-place, and his organisation's role within it, it is becoming increasingly likely that he will be selling to middlemen who are fully informed about it and who must, thus, be unimpressed by the salesman's arguments in the light of his ignorance of the facts of the market. Or, as Heinz's Sales Training and Personnel Manager puts it: 'The new type of salesman has to be able to talk intelligently to a new, business-minded, executive, as opposed to a good bacon-cutter' (Downey, 1980).

The decision to keep the sales force well informed as to the market-place confers other benefits: it allows the marketing-planning function to argue more effectively in support of the promotional programmes which the sales force will be asked to enact when such a programme is presented to the sales force. In many marketing companies the initiation of the action on most of the important elements of a product's promotional programme occurs at sales conferences: national conferences, which call together the whole sales force, when a really important new venture is being inaugurated, or local, regional conferences for the less momentous parts of the product's programme. At such conferences the product manager – in a company that has accepted the need for a well-informed sales force – will position the promotion being launched (perhaps a major incentive for the distributors, a major new advertising campaign, a big new consumer promotion or a change in the formulation or packaging of the product) against the background of the latest market information. He may well undertake the presentation of a full analysis of market trends, including an examination of the product's market share, distribution levels achieved, level of stock being maintained among the distributors, changes in consumer attitudes towards the market and the company's product, levels of consumer awareness of the product and its advertising and any information which helped him, the product planner, to select the particular promotional scheme which he will present at the sales conference. If the logic of the product manager's analysis is seen by the sales force to be sensible, and if the promotion being presented appears to be a sound response to the marketing problems and opportunities diagnosed, the sales force is likely to emerge from the conference with a strong motivation to continue to sell the company's products, a motivation based on, and supported by, a real understanding of the market forces which initiated the selling programme now to be undertaken.

In examining the factors that may be involved in developing and maintaining control over the selling activities of a company, it can be seen that in a number of areas that are crucial to the *performance capabilities* of the sales force the provision of marketing information is important.

Marketing information provides another important element of control of the efficient operation of the selling function: it is the basis on which some of the personal objectives of individual salesmen are both established and measured. This function has already been referred to in the discussion of the need, in a product plan, to lay down clear-cut performance objectives for the sales force. While the ultimate performance objective for a salesman is the achievement of an agreed sales target, subsidiary objectives – of distribution levels, stock levels, out-of-stock levels, etc. – may be laid down region by region and area by area as targets agreed between, say, the regional sales managers and the general sales manager. In order to monitor the progress of their efforts towards the achievement of such targets, the relevant data will need to be available to all the salesmen involved, and, of course, to the marketing-planning management and general company management, closely concerned with the achievement of all marketing-planning goals.

4. *Support Services*

The quality and competence of the support services given to the sales force also determine the professionalism of the force, and therefore may provide yet a further system of control over its activities. A detailed examination of such supports cannot be made here, partly for lack of space and also because much of it is concerned with complex administrative functions that are not the concern of this book. It is sufficient to outline the major support areas which are provided by competent selling operations.

Field-force communications centre. It has already been indicated that much of the activity of the sales force at work ('in the field') is done in some isolation: salesmen are expected to be able to cope largely on their own with the many day-to-day problems that arise in their work.

Even when he is closely supervised, a salesman may not see his immediate superior more than once a week, sometimes less often. In this situation he requires to have a contact-point permanently available to him in case problems arise which require immediate resolution and which he cannot solve himself. Additionally, many problems arise concerning such factors as the availability of products, delivery times and schedules, receipt of payments by customers, customers credit ratings, etc., which require contact with Head Office. The competent sales operation will set up an office whose primary concern will be to provide this service to those operating in the field.

Customer communications centre. Sales-force customers will, like the field force itself, require a point of contact with the parent organisation. They may wish to pursue a multitude of matters directly with the company, rather than go through the salesman. Indeed, they may be an 'account' not called on by the sales force and so have to resolve queries in this way. The service provided will need to be competent in answering a multitude of queries on such diverse subjects as order delivery, invoice queries, transit damage to product, the availability of promotional prices and stock, complaints about salesmen, credit availability, and so on.

This service is not, of course, to be confused with another customer-service operation set up by most major consumer-goods companies, consumer-advice operations designed to cope with the problems and complaints of the ultimate end-user of the company's products, usually members of the general public.

Sales promotions administration. The importance, to the effectiveness of the selling operation, of trade promotion activity has already been made clear in the context of a trade promotional programme developed for each product within the product plan. Additionally, a case has been made for the need for promotional money to be available to the sales force for it to use discretionally as and when sound promotional opportunities occur with individual accounts. For most major consumer-goods companies, the annual trade promotional programme is detailed, complex and much in need of careful control to ensure that the considerable sums of money involved are used wisely. To make such control certain, the administrators of the selling operation may well develop a specialist function within the department to approve, monitor and report on the success achieved on all such promotional activity.

Naturally, those administering the sales promotion programme within the sales department will keep closely in touch with the product planners whose money they are spending. They will also be responsible for producing a running total of committed expenditures to enable the product planner to see whether more money may need to be reserved against this activity or – less frequently – whether there might be an under-expenditure against the forecast, making money available for more profit or for other product promotional activities.

Order processing. Despite the considerable progress that has taken place in the last twenty years in industry's use of computer processes, there are likely to be very few – if any – computer programmes which are capable of processing completely the orders for products that flow daily into the business organisation. Even if allowance is made for the high competence of a good sales force, every order requires much vetting to ensure that the correct set of products will be sent to the correct addresses at the correct price. Computer code numbers for products will be misquoted, incorrect or non-allowable prices will be given, wrong account numbers will be used (the computer files will contain each customer under a separate code), products will be ordered which are not available at the time, or have been de-listed from the company's price list, product quantities ordered may need to be queried: the list of possible errors is almost infinite. There is a need for an order-vetting function, to ensure that the processing of orders to a satisfactory completion can take place.

Sales aids. In efforts to achieve sales targets the majority of sales forces consume large quantities of printed paper and cardboard: in presenting a case to customers, in providing point-of-sale support to customers, in taking orders from customers and in administering, recording and reporting to the company of sales achievements. There flows from the organisation to the salesman an endless river of order forms, sales presenters (from which the salesmen may sell to customers), product information sheets which the salesman may leave with the customer, price lists and special promotional price lists, call report forms (on which the salesman will make daily records of his activities), dealer record cards (which will record all the sales transactions with every account), advertising material to be used both as a matter of routine or for special promotional occasions in the shops – shelf-strips, wobblers, display cards, window cards, dump-bins, banners, car stickers, mirror stickers, mobiles, showcases, cardboard merchandisers, pegboards, jumbo dummy products (the list is endless) – as well as all the more routine administrative forms which smooth the daily routine of a large sales force (car-expenses forms, general-expenses forms, indents for sample products, for example).

The planning and administration required to mastermind the proper design and distribution of what may amount to millions of items a year requires competence and control.

5. *Supervision and Assessment*

The efficiency that may be developed by a sales force is dependent on all of the factors that have so far been discussed. The degree with which the *maintenance* of a high standard may be retained is to a considerable extent determined by the quality of supervision and of the systems that are applied within the field force. Once again, reference may be made to the twin pressures that apply most universally to all salesmen: the daily pressure of having to achieve clear-cut and usually difficult targets (and hence the application of a daily measurement of competence) allied to an isolation which is considerable relative to all other employees of the business organisation. Good supervision, above all, ameliorates the intensity of these pressures by providing both an expertise that aids achievement of the targets, and a moral support that motivates the salesman in his daily contact with many customers who will frequently appear indifferent to his problems, and with some customers who will occasionally voice unequivocal hostility.

For most sales forces the hierarchy of their managements ensures that the principles and values of supervision are maintained right up to the topmost level: the salesman handling a territory will probably report to an area manager, who in turn will report to a regional manager, whose line of communication is either to a general sales manager, who runs the whole of the selling Operation or – if there are too many regional managers for a general sales manager to handle competently – to a field sales manager, who reports to the general sales manager. The general sales manager reports, of course, to the head of marketing, generally a member of the company Board.

Finally, and in line with general management principles, the individual salesman – whether territorial or regional – will need to know how he is progressing in his task and to be told clearly both the level of achievement required of him and also his competence to date in achieving such a level; he will need to be assessed as to his strengths and failings in his task. As a final element in the control of the selling operation, there is great value to be gained from a sales force which is fully informed and fairly measured as to individual ability and promotional prospects, For one thing, such a policy is likely to reduce the high level of turnover of a sales force, a problem endemic to the selling profession (see Katzenbach and Champion, 1974).

Chapter 14

Promotional Control

INTRODUCTION

From the point of view both of the company and of the marketing planner, the promotional programme for the company's product is the *sum total that can be added to the product* which is neither intrinsic to the product itself nor to the processes by which it is made and delivered to the customer.

If the product is successfully manufactured and then delivered to a competent sales force to sell, its ultimate level of success will be markedly affected by the existence of a competent promotional programme.

Very few products sell themselves to the distributors, and even fewer sell themselves to the consumer, without some promotional support. It is this fact, above all, which accounts for what appears to be, to many members of the public, 'wasteful' marketing expenditure: the huge sums that may be spent on 'vulgar, frivolous and expensive' advertising and other promotional activity. The fact that such expenditures are approved by some of the most hard-headed, profit-conscious and determined businessmen in the world underlines most forcefully the necessity for such expenditures as the only way to reduce the constant possibility of product failure. It may be possible to bamboozle the public into paying for 'unnecessary' promotional expenditure, it is virtually impossible to bamboozle the senior management of many of the world's most successful companies into such unwarranted expenditure.

If the first premise accepted by the organisation is that of the necessity to promote its products, its second is that of the necessity to retain rigid control over the considerable sums often involved. Control over a company's promotional programme, and, hence, of promotional expenditure, is crucial not only because of *the scale of expenditure involved* but also because such expenditures *have a much greater discretionary element* in them than obtains for any other expenditure in which the organisation is involved.

This requires some explanation. Commitments by an organisation to most expenditures in the coming year (the subject of its operational plan) involve decisions concerning people, machinery and plant. Changes in such decisions are often unlikely to result in *rapid* alterations to short-term profitability: for example, the decision to reduce the size of the work-force, as a result of a sudden decline in the fortunes of the organisation, requires time for planning, time for consultation with unions, money for redundancy payments, the threat of further losses due to industrial disputes, the possibility of extra costs in having to recruit and train new personnel if the fortunes of the organisation suddenly improve; in short, change to many of the company's functions tends to be slow and costly, and having to find short-term immediate savings in order to counter short-term erosions of profit is not only difficult but is frequently hedged with undesirable consequences for long-term company needs.

This, to an extent, is much less true of at least a proportion of the promotional expenditure budget: a decision to cut back on advertising budgets, consumer promotions and, to an extent, on trade promotions, carries a threat to the organisation's long-term health that is much less serious than the short-term cut-backs in most other company budgets. This is of course a very broad generalisation which, for certain products in certain markets at certain times, could be disastrously misleading. But it stands as an accepted and useful generalisation.

To this extent, promotional expenditure has a greater *discretionary* element in its application than other company expenditures. When a company is having a difficult time in meeting its profit objectives, one of the first areas of savings sought tends to be in the organisation's promotional budget: as such a budget is frequently dominated by advertising expenditure, the cut-backs frequently fall first on the advertising budget – to the consternation and despair of advertising agencies whose existence depends on the stability of such expenditure.

To the discretionary qualities of promotional expenditure may be added the considerable advantages, to a company wishing to make savings in times of hardship, that such cut-backs have few short-term hazards and may be immediately counted on in full, without the implications of offsetting such cuts by necessary extra costs.

It must be emphasised that the practice of reducing planned promotional expenditure is not entered into lightly, any more than are cuts in any other expenditures, and the sound, marketing-orientated organisation resists the temptation to reduce such expenditure in the fair certainty that any continuous reduction will inescapably damage the organisation's long-term revenue-earning capabilities. It will remember that the costs of *revitalising* an ailing market share for a product is infinitely greater than the costs of *defending* an existing market share.

A final, general point requires to be made regarding principles of promotional control: the hazard, intrinsic in all promotional expenditure, that its value to the organisation is normally incapable of any efficient measurement. The necessity for promotional activity on a particular product is derived from the generally accepted principle that unpromoted products never fare as well as promoted products and have a much higher failure rate attached to them; so much is universally agreed. There is no agreement, however, as to what level of promotion is required to make a potentially successful product a real success.

Once again there is agreement that some advertising is better than no advertising. Also, there is a large measure of agreement that certain levels of advertising are ineffective: (a) because they are too low; and (b) because the incremental gains become too small relative to the additional expenditure, once expenditure reaches a certain level. But at what point – to the nearest £50,000 or £100,000 – either area of ineffectiveness is reached is unknown.

Similar reservations apply to both consumer and trade promotional expenditures. The broad *need* for such promotions may be readily established, but *the level* of promotional expenditure required is very uncertain. The prime reason for this uncertainty is the fact that controlled experiments to establish such levels are virtually impossible to design, in the light of the very large number of market variables that impinge on the market success of any product. Nevertheless, such experiments are tried by some major manufacturers, seeking guidance particularly in the field of expensive advertising budgets: test marketing is carried out to attempt to measure the gains the company may make by changing the advertising expenditure level relative to other expenditures.

A review of the controls that are applied to promotional activity will be carried out under two headings:

1. Advertising control: creative policy, and media scheduling.
2. Consumer and trade promotional control.

ADVERTISING CONTROL

Among major consumer-goods companies who make promotional use of relatively large advertising budgets, control may be vested in three separate individuals or groups of people:

1. The marketing planner.
2. The media services manager.
3. The advertising agency.

The *marketing planner*, usually a product manager, has of course responsibility for all aspects of product planning, and therefore for the promotional programme of which advertising may be the single most important element.

The *media services manager* – the function has a variety of alternative titles within different organisations – supplies a consultancy service to the marketing planner on all aspects of advertising. He or she will provide the full gamut of very specialist information required to plan a competent advertising campaign which only the most experienced of marketing planners will be able to match. The media services manager is the advertising expert operating from within the company.

The *advertising agency* will be the organisation appointed by the company to execute the plans – and improve on them – in the detail and with all the specialist skills required to create and enact the advertising the company requires.

This structure is not universal to all consumer-goods companies – perhaps not even to the majority. Many companies still continue to invest the responsibility for advertising planning and control in an advertising manager, who operates separately from, if closely with, the product manager. While there may exist organisations and situations in which this unholy separation of the inseparable is justified, the majority of product-based organisations will want to avoid any such confusion of action and responsibility.

As in so much of the work of the product planner, *a primary measure of advertising control is achieved with the agreement of the annual product plan.* It will be remembered that the review of the product's advertising needs will have resulted, in the product plan, in *recommendations concerning*:

1. *Basic policy: whether* to advertise or not
   Assuming a decision in favour of advertising:
2. *Creative policy: what* the advertising should look like and what it should say.
3. *Media policy: where* the advertising should say it, bearing in mind the target audience.
4. *Appropriation policy: how much* should be spent.

The formal acceptance of the product plan by the company's senior management ensures that such policies have received approval, and they will confirm to all three participants concerned with advertising concerning the need to ensure that the policies are enacted.

Creative Control

Control over the creative elements of an advertising campaign presents most organisations with a hard choice: to dictate or not to dictate to the advertising agency what is creatively acceptable and what is not (at the extreme, virtually to create the advertising itself and tell the agency it can draw the pictures and make the commercials to the organisation's specifications).

The problem exists primarily because there appears, to date, to be no satisfactory formula for the 'correct' creative solution to any particular advertising need – and a profound instinct suggests that there never will be. Some manufacturers – rarely the major ones – solve the problem on the basis that none exists: they virtually dictate advertising creativity, choosing the visual approach, writing the copy. Others – almost as rare – give their advertising agents a completely free hand to determine the creativity, accepting whatever their recommendations might be. In between these extremes lie the majority of advertisers who, while giving considerable freedom to the agency, will nevertheless assert their right to reject or change the offerings presented.

The difficulty in the choice is that the advertiser feels he, as the paymaster, must determine the advertising because he will have to pay for its failure if that event were to occur: his temptation to dictate it is only mitigated by his realisation that he is not expert in the arts of creativity. From the point of view of the advertising agents they will know that their creative offerings are, in the last resort, founded on intuition and not on science: at the same time, they may know that while such lack of scientific certainty justifies the advertiser in his 'interference' in the creative processes of the agency, it does not make such interference palatable or even tolerable to the artists and writers the agency employs: no writer of novels would happily create his books on plots, characters and writing style determined by the publisher, and no artist would happily paint his canvases on the basis of the design, colour and content instructions of his agent.

In this matter of the control of the creative policy of the advertising strategy, the marketing planner must learn to tread a path of compromise between the extremes of dictating to the agency on the one hand, and absolving himself of the responsibility for its work on the other. In this compromise he is not helped by the existence of yet a further problem: of all the areas in which the company's senior mangement take the greatest interest in the work of marketing planning, none appears to be more exciting to them than that of the creation of a new advertisement, and on no other subject will the marketing function receive more gratuitous advice – not to mention arm-twisting. Over the years the more mature of the marketing-orientated organisations have learnt to leave decisions as to creative execution as a matter to be solved between the marketing function and the advertising agency, knowing full well that the alternative – insisting on the approval, by groups of senior managers, of all the company's advertising – tends to result in committee advertisements, which are good for papering the walls but less good for selling the product. Such a solution recognises that if real responsibility is to be given to the marketing function for the achievement of agreed levels of revenue, then the determination of a major factor affecting that achievement – the creative content of the advertising campaign – should be left to the decision of the function which is expected to carry the responsibility for its effectiveness.

Whichever philosophy is adopted by the manufacturer in his relationship with his advertising agents as to agreement and approval of advertisements, most organisations progress through a fairly standard set of procedures in arriving at the creation of advertising.

(1) *Advertising strategy agreement.* The advertising agency will naturally be involved in the early development of the advertising strategy to be adopted on a particular product. The broad creative goals of advertising which are incorporated in the product plan will have been discussed with the advertising agents, and, indeed, frequently formalised by them, at the same time as the formulation of the media strategy and the agreement as to the appropriation to be spent on such advertising. Such a strategy formulation will have arisen from an extended period of review of the product's over-all marketing position, the final outcome of which is the annual product plan. Where the relationship between manufacturer and advertising agency is close and fruitful, both will have been involved in the marketing planning for the product, even if the leadership in this activity tends to lie with the manufacturer's product-planning function. Both

sides will emerge from such a review with a fairly clear idea of what the advertising will have to say, some idea as to what it will look like, and a clear idea of where it will be seen (which media) and how much is to be spent on it. At this stage it is not usual for specific advertisements to have been created.

(2) *Creative development.* With the agreement between the manufacturer and the agency of the creative strategy as part of the total advertising strategy, the agency can now move towards the production of advertisements. The creative strategy now needs to be translated into images and words, a process which is partly intuitive, partly logical, partly artistic and wholly hard work. While the particular exigencies of the marketing situation may point very clearly to a specific *type* of advertising message, the infinite variety of visual and verbal solutions available for the creation of a single advertisement ensures that no one advertisement is ever seen by all people as the definitive and unalterable answer to a product's advertising needs. Advertising agencies normally adopt a screening process of their own to review the offerings of their creative department before they are ever approved as fit to present to the advertiser ('the client'). Such a Review Board or Plans Board, as it is often called, will apply to a new advertising campaign or advertisement all the experience and wisdom of the agency's most senior personnel in order to screen out weak and unacceptable creative solutions.

At this stage no final commitment will have been made to the production of a 'finished' advertisement: what is presented for comment are 'roughs', which consist in the precise copy (words) recommended against the background of a sketch to indicate the visual element of the advertisement. In the case of a television or cinema commercial such a preliminary presentation consists in a 'storyboard', which will show a number of sketches, depicting the changing visual element against which the words will be used. The reasons for using such 'roughs' are primarily those of flexibility and cost: flexibility, inasmuch as the advertisements will probably be changed – perhaps on a number of occasions – before there is final agreement as to their suitability; cost, inasmuch as the cost of presenting a fully complete advertisement for approval is always fairly expensive in the case of 'still' advertisements (press and poster) and inordinately expensive in the case of 'moving' advertisements (television and cinema).

(3) *Creative testing.* For many consumer-goods organisations, such preliminary creative executions of advertisements may now be submitted to market-research testing among consumers in order to provide some further guidance as to their suitability for the market-place. The subject of advertising research is at once complex and frustrating, both to the advertiser and to his agency: no research technique has yet been devised which satisfactorily pre-tests the *selling effectiveness* of advertising, ultimately the most valid and critical measure of its competence. Until such a measuring device is devised, the world of advertising has to be content with measuring those elements of the advertisement which logic, rather than science, dictates are correlated with selling competence: the extent to which the message in the advertisements is understood without confusion and ambiguity, the ease with which such a message is remembered, the level of credibility in the message, the ease with which the viewer identifies satisfactorily with the situation portrayed in the advertisement, the image of the product (and the manufacturer, if this is relevant) protrayed in the advertising, and generally any other factor of viewer-response considered important in establishing the validity of the particular advertisement as a fruitful marketing tool. Because of the hypothetical nature of the premises underlying advertising-testing techniques, many advertisers and advertising agencies avoid all pre-testing, trusting to 'judgement' and 'experience' to dictate their acceptance or rejection of creative executions; a course which is simpler, less costly but considerably more hazardous to the marketing plan.

Should such pre-testing indicate major or minor problems with the advertising, revisions are made prior to submitting the advertisement for client approval.

(4) *Creative approval.* The advertising agency will now submit its creative execution to its client, together with any supportive material from the programme of advertising pre-testing. The simplicity or complexity of the approval procedures is dependent on the approval philosophy of the firm,

already discussed. Whatever the philosophy, the approval procedure will be encompassed in two stages:

(a) Approval of the preliminary (rough) execution.
(b) Approval of the finished advertisement.

(5) *Advertisement production.* Once approval has been given to the preliminary execution, the advertising agency will need to translate the rough into a form usable by the owners of the media selected: finished artwork and blocks for the printers, tapes for the radio operators and film for television and cinema. This production period may be fairly quick and easy, in the case of the simpler press campaigns, in which further meetings and approval sessions between the agency and the client are minimal, or very complex, as in the case of the making of three or four expensive television or cinema commercials, where there may have to be meetings to discuss and approve the use of actors, film directors, composers, studios which specialise in making commercials, agreeing locations for commercials made outside the studios, attending planning meetings and studio sessions, and the hundred and one activities in which agencies are involved in the process of producing a major new advertising campaign.

While the ultimate responsibility for the quality and promptness of the production process lies with the advertising agency, the client will want, at minimum, to be kept well informed, particularly if the process is likely to run into five- or six-figure costs.

Media Control

The decision to accept or reject an advertisement, furnished by the advertising agency as the answer to the product's advertising needs, is to some extent an intuition-based decision. While market-research investigations by either the agency or the advertiser to establish the validity of such an execution may greatly help in supporting the wisdom of such a decision, in the end there is remarkably little science involved, however much analytical logic may have been used to arrive at the decision. A much more scientific approach may be used in taking decisions about the medium in which the advertisement is to appear. Although there is no one single accepted measuring device which may determine unequivocally the effectiveness of the media schedule, some clearly valid measuring devices do exist.

It is possible, therefore, both to establish targets of effectiveness and measures of achievement against those targets. The numbers of copies sold of a particular newspaper, the number and composition of the readers of each copy, the way that particular newspaper tends to be read (the amount of attention paid to page 1 versus the back page, the sports pages versus the editorial comment columns, etc.), the extent to which there is duplication in the reading of that paper with the reading of other publications, these and many other facts are available to the media planner who seeks to achieve the most effective use of limited advertising funds for the promotion of the product to be advertised. Similarly, a great deal of information is available about television, cinema and radio audiences.

The product planner will need to monitor the progress of the advertising campaign through a variety of controls. In the larger organisations such monitoring will be carried out for him by the media services manager. In this control they are, of course, joined by the advertising agency, which is self-evidently interested in the process, inasmuch as it is its work and its ability which are being measured by the controlling processes. It is necessary to examine some of these controls.

(1) *Buying efficiency.* The process of buying space (newspapers, periodicals and posters) and time (television, radio and cinema) is complex, competitive and highly skilled. As such, the development of the expertise required to achieve efficient media buying is left by advertisers in the hands of the advertising agencies. Among the larger agencies the media-buying department will consist of a number of specialists whose expertise will lie in one particular group or other of the media available: specialists in television time-buying, specialists in press space-buying, and so on.

Criteria for the measurement of buying efficiency will have to be agreed between the advertiser and the agency. The best-known, and probably the most widely used, criterion is that of the relationship between the number of the target audience reached by the advertisement and the amount it has cost to reach it: the 'cost per 1,000' criterion. A commercial television programme which has an audience of 1 million homes for which a charge is made of £1,000 for each showing of an advertisement will be said to cost '£1.00 a thousand' (homes). But – for television at least – the audience cannot be guaranteed: a competing television programme may attract half the forecast audience away and cause the actual cost per thousand to double to £2.00 a thousand. One of the responsibilities – and skills – of the television time-buyer is to forecast audiences as accurately as possible in order to ensure the the most effective buying. (It must be hastily pointed out that, as a general rule, the television contractor does not reduce his advertising charges if the audience fails to switch on to the programme in which the commercial appears.) A major part of the skill employed by the competent media buyer lies in the prices he can obtain from the owners of the media in which he is buying. While all media owners (press lords, television contractors, etc.) produce an official *price list* (*rate card*, as it is more usually known), the efficient buyer does not expect to buy all his time or space at the prices quoted. According to his bargaining abilities and power, he will expect to reduce the cost-per-thousand quoted in the rate card by a substantial amount.

For television in particular, there may be other criteria agreed in the measurement of buying effectiveness. It may, for example, be considered much more important to ensure that a very large spread of the total audience sees the commercial occasionally rather than a smaller proportion seeing the commercial very frequently and a greater proportion seeing the commercial very infrequently. Such a criterion will determine what 'time' is bought – the type of programme, the time of the day, the day of the week, and so on. Or it may be considered by the advertiser important to be seen to be advertising only in the programmes with the big audiences, because he may feel this is better for the image of the product. Such a criterion may make it impossible to buy time most 'economically', displacing the 'cost per 1,000' criterion. Having established the criterion or criteria to be used, it is, of course, important for the advertiser to see that progress is regularly reviewed with the agency. For this review to be able to take place, data which provide information after the event are required: data on the agency's forecast, both to the audience that would be reached and of the prices obtainable, data on how many people saw the commercial and on its cost. In order to be able to make at least the essential measurements of audience involvement in the media selected, the advertising industry and the media owners are able to provide fairly up-to-date and reliable audience data – 'viewership' and 'readership', for television and press respectively – which may be used in the assessment of media-buying efficiency.

(2) *Administrative efficiency.* It has already been pointed out that buying media is a complex activity. A major reason for this complexity lies in the large number of media owners who may be involved in any one advertising campaign. The advertising agency may, for a major national campaign involving large sums of money, buy from all the television contractors, all the national newspaper groups, a large number of regional newspaper groups, consumer magazines, trade magazines, local radio station operators, operators who handle advertising on public transport, cinema-chain operators and poster organisations. The logistics of administering such a spread of advertising is, of course, left to the agency, but the advertiser will know that the benefits that accrue from maintaining a watchful eye on all this planning are considerable: television contractors do occasionally charge for a television commercial spot that never materialised; invoices are incorrect against the agreed charges – mistakes do get made. Among the larger consumer-goods companies, the media services manager will maintain a staff to check this administrative effectiveness of campaign execution. A close control on the efficiency with which advertising expenditure is handled is necessary not only because it is administratively complex and, as such, liable to error, but also because, for many companies, the advertising expenditure budget is very large and often the largest marketing expenditure item.

The point has already been made that the terms under which the media buyer buys is dependent on the power he can wield among the media owners: clearly it is to be expected that the placement of £100,000 worth of advertising revenue annually with a media owner is likely to draw better terms from him than the placement of £5,000. From this rather obvious truth, it will also be seen that the power of bargaining wielded by a big advertising agency is always greater than that of a small agency – other things being equal.

A problem arises when the total sum an advertiser spends is fragmented, in its power to obtain favourable discounts, if that sum is divided among a number of different advertising agencies, all of whom will buy space and time separately.

In the world of major consumer-goods companies a multiplicity of agencies is the rule and not the exception. This primarily exists because most major companies have a wide range of products, operating in a wide range of markets, and the placing of all such products with one agency is generally impossible if a clash of interests with that agency's existing clients is to be avoided. For example, a wallpaper manufacturer who also manufactures paints and curtain fabrics may ideally want to use one agency for all his products. He is likely to find that all the agencies with whom he is willing to work already handle the advertising for competitors in at least one of those three markets. Hence the manufacturer has no option but to place his advertising in two and perhaps three agencies. As a result, the clout available to each agency in its media buying power is now much smaller than it would be if all the advertising were handled by one agency. One of the most useful roles for the manufacturer's media services manager is to ensure that the company retains that clout, even if each individual agency is unable to do so; this is done by establishing and maintaining an informal contact between the media owners and the media services manager.

(3) *Functional efficiency.* The function of the product planner's advertising is not that it should be bought efficiently and be administered effectively: these are only the means to achieve its function. While a close control of these means can make more certain the attainment of the ends, the product planner will be primarily concerned to try to measure and control the *function* of advertising: its ability to make the potential purchaser aware of, interested in and willing to buy and rebuy the product being advertised. Ultimately the

measure of the success of the advertising campaign will be found in the change it may achieve in the market share of the product, and therefore in the unit sales from the factory. Once again, however, the complexity of the interlocking marketing-mix factors and their effect on market share make it difficult to establish the effect of the advertising separately from the effect of all the other factors: a product's market share may fail to show any change following major advertising expenditure on a new advertising campaign, yet such a failure does not prove that the advertising did not work. (In those circumstances it is possible that, had there been no new advertising campaign and no major expenditure on it, the product's market share might have declined.) Equally, a major increase in the market share of a product may simply *coincide* with the introduction of advertising, without in any way having been caused by it.

Because of the complexity and uncertainty of measuring the *direct* effect of advertising on product sales, the marketing planner will tend to settle for the measurement of *subsidiary criteria* which can be logically, if not factually correlated with sales effectiveness: he will, through market-research surveys, measure such factors as the changes in the level of consumer awareness of the product (before and after the advertising), of understanding of the product, attitudes towards the product, recall of the points made in the advertising. and so on. There is a greater certainty – though no absolute certainty – that any significant changes thus measured will have resulted from the advertising campaign, and may be used as measures of its achievements. Certainly such measuring devices are used to enable better marketing decisions to be taken. Recently the Tea Council, concerned with the decline in tea-drinking in Britain, carried out tests on some generic tea-drinking advertising – the 'Best Drink of the Day' campaign. Jim Monday, the Tea Council's marketing director, stated:

> We did quite a sophisticated series of weight tests in Tyne-Tees to see whether we could achieve a positive shift in attitudes to tea and an increase in consumption. As a result of our success there, we expanded into London, the Mid-

> lands, Yorkshire and Granada [TV areas]. The slide in tea consumption has now been reversed for the first time since 1970. (Roter, 1979b.)

(4) *Budget control.* A major control responsibility of the product planner in his handling of the advertising function lies, of course, in ensuring that the appropriation agreed for the product is not over-spent or, should the need to spend more money be clearly indicated, that the product planner obtains agreement to such additional sums. In this matter the product planner has all the advantages of working with the advertising agency, which has the strongest possible vested interest in displaying its business acumen in restricting expenditure to the agreed level. Agencies make it their business, through their accounts department and its invoice-receiving and checking procedures, to furnish the client with a continually updated set of expenditure accounts.

(5) *The quality of the advertising agency.* One of the more difficult problems facing the marketing planner in his control of advertising lies in his need to ensure the maintenance of the highest possible quality of service and dedication to his marketing cause on the part of the advertising agency employed on his brand. The logically simplest solution lies in employing agencies which have the highest reputation in their field. But the problem is rarely that simple, for even the best agencies have weak departments which require careful monitoring: one agency may have an above-average creative department but prove to be less than best as to time-buying; another may show great media-buying strengths but tend to be more pedestrian in its creativity. It is the responsibility of the advertiser to diagnose the agency's strengths and weaknesses and provide the stimulus to minimise the impact of these weaknesses on the marketing effectiveness of the product. Ultimately, the quality of work provided by even the best advertising agencies is dependent to a considerable extent on the level and maturity of the professionalism that the *company's marketing function* can bring to bear in its daily relationship with the agency. This is a factor not only of the marketing competence of market planners but also of their ability in the general field of industrial relations: the

ability to lead, inform and motivate agency personnel, in their process of creating and monitoring competent and effective advertising strategy. In this context it is important for the advertiser to know when the agency personnel involved on 'the account' (as products/companies handled by advertising agencies are called) begin to flag in their interest or creative ability, and to call for a change of agency personnel or even a change of agency. When, how and if this occurs is to a large extent dependent on the goodwill built up between the agency and its clients over the years, and a readiness on both sides to agree to the need for change.

CONTROL OF CONSUMER AND TRADE PROMOTIONS

Among consumer-goods companies operating in highly comcompetitive markets, a very considerable proportion of the work of the marketing-planning and the sales functions is spent in planning and executing the organisation's consumer and trade promotions programme. Whereas the production and sale of 'standard' products becomes, for competent organisations, a matter of routine, the production and sale of special promotional products requires much additional activity, raises endless new problems which require solving and generally helps to make the life of marketing personnel as hectic and unboring as it is.

The control of such activity is largely a matter of intelligent administration: an eye for detail and a willingness to work very hard. This bland generalisation may usefully be added to by the discussion of some general principles.

1. *Promotion Allocation*

Whether the promotion is a consumer or a trade promotion, the quantity of product to which the promotion applies is finite. If the promotion is attractive to the distributor – generally that can be taken to mean that the promotion will give him better profits or more sales or both – he will seek to buy a lot of the promotional product offered, relative to the regular quantity he would buy of that product if it were not on promotion. Suppose, for example, that a particular distributor sells 10,000 cases of a product a month to his customers. Suppose, also, that he normally holds one month's stock of the product on his shelves (10,000 cases) throughout the year. Suppose now that in the course of the next visit from the makers of that product the salesman offers him a one month's promotion, which amounts to a reduction in price of 24 pence a case. The salesman tells the distributor that the purpose of the promotion is to provide both the distributor *and* his customers with benefits: the distributor should keep 12 pence a case for himself as additional profits and pass on 12 pence as a price reduction to the consumer (one penny per unit, there being 12 units per case). The distributor is interested in the promotion, agrees the price to be charged to his customers – one penny per unit less than his current consumer price – and agrees to display the product in his outlets. The distributor orders 30,000 (three months' stock) promotional cases, saying that he normally sells much more promoted than regular product. The salesman (assuming he is competent) is in a quandary. He will know that the distributor will keep the product on display at the agreed reduced price for a month, but he is certain that many cases will be left unsold at the end of the promotional month. *All those unsold cases will be sold to the customer by the distributor in subsequent months at the full, unreduced price* and the distributor will make a full 24 pence per case extra profit.

Given unlimited supply of extra-profit cases, such profit-taking by the distributive trades is inevitable; indeed it is good business on their part. It is the task of the marketing function to apply controls which minimise such 'waste' that occurs in this, and similar, situations, and hence the importance of allocating promotional stock carefully to ensure a proper and profitable distribution. Such control requires that salesmen know the average rate of sale of their products through each of their major, if not minor, accounts. It also requires that the product planner has a clear indication of the likely quantities of sale of promotional stock through all the sales outlets for different products and for different types of promotion. He will have to reconcile these requirements with the limited funds available for promotional expenditure. All these estimates are based on experience in the past in the markets in which his company operates.

Thus there is also a need for the keeping of historical records of previous promotions and their achievements, such that mistakes are not repeated and such that the best guidance is available to the product planner in deciding on the quantities of promotional product required.

2. *Promotional Saturation*

Promotional activity is geared to provide the consumer and the distributors with additional product benefits, over and above that which the manufacturer can normally afford. For many products sold in the High Street, there are likely to be a limited number of promotional periods when the product is available on special terms to the middlemen or the consuming public or both. One of the hazards involved in such promotional activity is that once the level of promotional activity reaches a certain proportion of the total product sold – probably around 60 per cent – the frequency with which the product is 'on promotion' through the year makes it possible for a proportion of the distributors to buy *only* when the product is being promoted. That is, they resist buying many of the products on standard, non-promoted terms, knowing that while the salesman may have no promotion to offer on the product on one visit he will almost certainly have a promotion to offer on his next visit. To ensure that the distributors have stock of a particular product all the time, the manufacturers may find themselves increasingly forced to promote the product to an ever greater extent: the promotional terms, in other words, become the 'standard' terms.

This problem is particularly prevalent among producers who tend to concentrate on trade promotions, rather than consumer promotions, where the direct benefits to the distributor is much easier for him to see and is more clearly tangible in terms of his improved profits. The principal control that may be applied to prevent the occurrence of such a problem is an awareness of its existence, and a consequent avoidance of 'over-promoting' a product.

3. *Promotional Timing*

Reference has been made to the necessity for care in devising a carefully timed programme of promotional activity for a product. This may now be elaborated. A number of factors will determine the timing of both trade and consumer promotions:

(a) *The seasonality of the market.* Many markets show clear and not always obvious patterns of seasonality – toys, deodorants and firelighters are examples. In a report on Hornby, manufacturers of toys, Howard Sharman (1979) states:

> Hornby reckons to do 75% of its business between October and February, with most of its sets sold before Christmas. For two years it has run a special January TV campaign pushing its accessories for children who have been given sets for Christmas.

This latter is an ingenious use of a promotional opportunity.

The product planner will need to know of such seasonality patterns as basic data from which to plan his promotional timing of advertising as well as consumer and trade promotions. The planner will know that the pattern of sales to the distributors will precede the seasonal purchasing patterns of consumers (the distributor will always want to buy a seasonal product well ahead of the season). Trade promotions will therefore need to be *ahead* of the consumption season, while consumer promotions will be broadly *synchronised with* the consumption season.

(b) *Distributor considerations.* The distributive trades have themselves – like the consumers – patterns of behaviour which may determine the pattern of promotions adopted by the product planner. For many High Street stores, stock-taking for the end of the year takes place immediately after Christmas, and prevents the achievement of successful promotions which seek to increase trade stocks at that time. High Street outlets in all the holiday resorts tend to show a very marked seasonality of sales not reflected in over-all trade sales. Many of the major High Street multiples have developed marketing programme traditions of their own, in which, for example, they will – for a week or two – concentrate on certain product categories and seek promotions from the manufacturers involved in these markets: spring-cleaning week, winter-sports week, back-to-school week, etc. Such considerations will influence promotional programme timing.

(c) *Sales-force work-load.* The product planner will recognise – grudgingly – the need for the timing of promotions on his products to be subject to the timing programme for all the products carried by the sales force. In practice product planners, planning their products independently of one another, may find that the results of their ideal plans require the sales force to sell a dozen promotions in one four-week selling cycle while the next cycle is void of all promotions. In order to provide the sales force with a reasonable, achievable work load, sales management will want to ensure an even spread of product promotions throughout the year, whereas marketing planning will seek to place promotions regardless of such needs, purely on the needs of the product's marketing tactics. Only by reshuffling the promotional calendar can the marketing function compromise and produce a workable programme.

(d) *Total promotional planning.* The timing of consumer promotions will need to be considered in the light of the timing of the advertising and of the trade promotions for that product: clearly, the programme must be seen as the three faces of a single programme. If, for example, a particularly intense period of advertising is forecast to result in a sudden increase in consumer buying, a major trade promotion may be planned four to six weeks before the advertising in order to persuade the trade to increase stocks, ready for the anticipated increase in sales. A major consumer promotion may be directly supported by being advertised, requiring that the timing of both are carefully interlocked to achieve good distribution of the special packs before, and at the same time as, the advertising.

4. *Promotional Effectiveness*

The purposes of the promotional programme enacted by the product planner are many; the principal objectives of most of these promotions have already been discussed. Whatever particular objectives are assigned to each element of the programme, the extent to which such objectives have been achieved will have to be measured. If the objective has been to make the selling activities of the sales force easier, the verdict of the sales force will probably serve as a measure of its effectiveness. If the purpose has been to increase the level of trade stock, checks on that level will determine whether or not the objective has been attained. A programme of measurement will need to be planned at the same time as the promotional programme is planned to ensure that facts, rather than pious hopes, will prove the value of such a programme to the company.

Chapter 15

Financial Control

INTRODUCTION

The marketing planner should have a profound understanding of the financial objectives of the company, and of the financial objectives of the products for whose marketing plans he is responsible.

He should have a clear understanding of the financial implications of his activities and he must have a fundamental financial orientation in the way he views and reviews the marketing opportunities open to him. A product planner with little interest in, and no grasp of, these financial implications is a hazard to the organisation for which he works. If marketing is the function responsible for the management of revenue, and the product planner is given responsibility for part of that function, then, by definition, he must understand his role as a revenue manager. In spite of the central importance to the company of this thesis, the average product planner is not, of course, a chartered accountant. And neither is his marketing manager likely to be one, or the marketing director. It follows that for the proper achievement of its responsibilities, the marketing function is going to need the closest co-operation with those in the organisation who do have the experience and the qualifications to translate marketing activity into financial facts.

In some of the major business enterprises in the world today the realisation of the importance of the relationship between the marketing and the financial functions of an organisation has led to the appointment of marketing liaison accountants who fulfil a role astride the two functions, providing a consultancy and advisory service to marketing planning to ensure co-operation and the maintenance of a vigilantly financial view in the taking of marketing decisions.

It is not enough that the organisation accepts the revenue-management role of the marketing function and ensures that it has a proper awareness of its role; it is also essential that the organisation adapts its financial routines and procedures to the needs of the marketing concept, to enable marketing to monitor and control the financial elements of its functional responsibilities.

This principally means that the recording of those financial elements which are involved in revenue accounting – revenue, direct and indirect costs and product profits – will need to be *product-based* as well as *company-based.*

A problem faced by the marketing trainee or student who has no experience of accounting terms and practices is that of understanding the basic concepts involved, together with the great profusion of terms used in the field. It is for this reason important to provide some basic definition of both the words used and of the ideas to which the words are applied. Unfortunately, business organisations show some considerable variations as to the words they use to describe identical functions in their accountancy practice; to that extent, a glossary of accountancy terms tends to some extent to describe what an individual company, marketing manager or accountant means by such terms, rather than their absolutely universal meaning. Bearing that in mind, it is important for the student to recognise that such a glossary used here is personal to the author, though as far as possible the terms used are believed to be defined in a way acceptable to many, if not all, accountants. (See the 'Glossary of Terms used in Marketing Accountancy' at the end of the book.)

The marketing function of the business organisation, it has already been made clear, is, on the financial side, primarily involved with the *revenue account* – or *profit and loss statement*, as it is otherwise called. The revenue account is the way in which the accountant *reports on the flow of money earned and expenditures incurred by the business organisation, over a specific period of time.* The key elements of a revenue account are:

1. Revenue.
2. Expenditures.
3. Profits (also called 'income').
4. Time.

REVENUE AND PRICE

Revenue, or, to give it its fuller title, *sales revenue*, is the money a business obtains through the sale of its goods and services. An organisation may, of course, have other revenues than these: it may own stocks and shares which will bring in dividends, it may own patents which it allows other manufacturers to develop in return for payment of royalties, which may also be considered as revenues. Such 'other' revenues do not usually appear in the 'sales revenue' entry of a revenue account, and the marketing planner is not usually much concerned with such 'other' revenues. The revenue he *is* concerned with is that arising from the sale of the goods and services for which the organisation has been primarily developed.

The trend in the volume of sales revenue is, for many businesses, the single most important measure of its competence. While the short-term development of the organisation's assets – such as the land, buildings and machinery it owns – and of the income (profits) which the organisation derives from its activities, are vital to the organisation's standing in the business world, *only revenue growth over time allows an organisation to improve all other objectives* (including growth in its investment programme – assets – and in its profitability).

The sales revenue for consumer-goods companies, and for most manufacturing companies, consists in the *unit sales* times the *price* (manufacturer's selling price) over the time period covered in the revenue account. While this statement is seemingly simple to understand, it in fact contains a number of concepts which require clarification. This can usefully be studied by looking at *price*, and this we shall proceed to do.

1. *Introduction*

While everyone has a fairly simple and clear idea as to the meaning and function of price, the marketing operative has to differentiate clearly between different price concepts: manufacturer's price, scale price, trade price and consumer price. In the marketing of industrial goods the price charged by the manufacturer is often the only price which requires consideration: the *manufacturer's selling price* is identical to the end-user's *buying price*, there being no intermediaries in the selling and buying process. This is not generally so in the field of consumer-goods marketing, where the situation – hence the pricing decision – is considerably more complicated.

While the consumer-goods manufacturer is primarily concerned with the price the ultimate consumer will pay for his product – the *consumer price* – his pricing decisions will also have to take into account the profit requirements of the intermediaries through whom he will want to distribute his products. They will require a *trade price* which will enable them to earn a *trade margin* sufficient to make the buying of the product worth while: a satisfactory price, giving a satisfactory set of margins, will need to be available between the manufacturer and the wholesaler, the wholesaler and the retailer, the retailer and the final consumer. In taking his pricing decisions the consumer-goods manufacturer will need to attend to the whole chain of price and profit requirements, bearing in mind, of course, *his own* profit requirements and the need to maintain a strong pricing position in the market-place against competing products.

To these complications must be added the 'profit' requirements of the government – value-added tax – which also affects the final price.

Within the pricing decision the manufacturer must make the further decision as to whether to make use of the full distribution network, or only a part of it, or indeed whether to bypass the system entirely and sell direct to the consumer, as in door-to-door selling.

2. *Trade margins/price*

Perhaps the simplest way to grasp these complexities it to show an example of trade pricing at work. The example shown in Table 15.1 is based on a hypothetical product which is on sale from the manufacturer at £1.00. This example is concerned to show the impact on the *consumer price* both of *trade margins* and of the effect of using part, or all, of the distribution network.

Table 15.1 *Trade margins*

	Effect on consumer price if the manufacturer:		
	uses full distribution network	sells direct to retailer	sells direct to consumer
1. Manufacturer's selling price	£1.00	£1.00	£1.00
2. Wholesaler's buying price	£1.00	–	–
3. Wholesaler profit needs (10% mark-up)	£0.10	–	–
4. Wholesaler selling price	£1.10	–	–
5. Retailer buying price	£1.10	£1.00	–
6. Retailer profit needs (30% mark-up)	£0.33	£0.30	–
7. Retailer selling price (less VAT)	£1.43	£1.30	–
8. VAT @ 15%	£0.21	£0.20	£0.15
9. Retail selling price (including VAT) *or* CONSUMER PRICE	£1.64	£1.50	£1.15

At least two observations need to be made on the above example:

(a) For the sake of simplicity the manufacturer's selling price (MSP) price of £1.00 has been assumed to apply regardless of which 'route' in distribution is taken by the manufacturer.

In practice, this is unrealistic: the distribution expenditures of a company selling direct to the consumer are considerably greater than those for a company selling direct to retailers, and these, in turn, are greater than for the company selling through the full distribution network. Such increased expenditures would virtually guarantee that the manufacturer would require different selling prices as between the different distribution routes he takes.

(b) The manufacturer who chooses to sell direct to the retailer has, in the example above, ignored the wholesaler margin, and given the wholesaler buying price to the retailer. This may be a hazardous practice: should this manufacturer need, at any future date, to make use of the wholesaler function, he has no margin built into his pricing system. He must either *increase the consumer price* or *decrease his selling price* in order to make such a new margin requirement available, and neither of these solutions is a very satisfactory marketing tactic.

This example of trade pricing at work includes the term *mark-up*. This term is one of a number used in describing the methods used by distributors in arriving at the margin they require.

The profit required by the distributive trades is usually calculated in one of two ways:

(a) As a percentage of *buying price* ('mark-up').
(b) As a percentage of *selling price.*

EXAMPLE

If an organisation *buys* at	£1.00
and *sells* at	£1.50
It will have given itself a *margin* (i.e. it will earn)	£0.50

This *margin* of 50 pence can be viewed:

either as 50% of the *buying price* (50p as a % of £1.00)
or as 33⅓% of the *selling price* (50p as a % of £1.50)

The *mark-up* system is, of course, much the simplest to understand and ought perhaps always to be used. But both systems are regularly used by distributors and manufacturers, so both should be clearly understood.

It does not help the cause of clarity that the term 'mark-up' is very often *misused*, both by practitioners of, and authors writing about, marketing, by being applied on selling price when *it can only be applied to the buying price.* (The term *mark-down* is not normally used in discussions of calculating margins — to clear up yet another possible confusion. Marking-down is a term used by the business community to refer to *price-cutting* practices.)

As long as the margins required by the distributive trades remain constant, it follows that the relationship of the manufacturer's selling price to the consumer price remains constant (assuming no change in value-added tax). In Table 15.1 it can be seen that the *consumer price is 164 per cent of the manufacturer's price*, for a manufacturer who uses the full distribution network (£1.64 as a percentage of £1.00). In assessing the effect of a change in MSP on consumer price the marketing planner will use this ratio for simplicity of calculation, and indeed will have the opportunity of graphing the effect of a large number of MSP changes on the consumer price, due to its simple linear relationship. Thus an increase in MSP from £1.00 to £1.15, say, will result in a consumer price of £1.15 x 1.64 = £1.886 In reverse, and with reference to the same data, the MSP is always 60.976 per cent of the consumer price. The effect of reducing the consumer price — perhaps because of competitive pressure — to, say, £1.59 (from £1.64) may be instantly calculated as £1.59 x 0.60976 = £0.97 (MSP) — a price decrease which would result in a loss of three pence on every unit, in comparison with the original MSP of £1.00.

3. *Scale Price*

In the example used to exemplify the workings of trade margins (Table 15.1) the manufacturer's selling price was stated as a single figure (£1.00). As has already been discussed (pp. 81–4), such a figure actually consists of an *average selling price*, due to the fact that most consumer-goods manufacturers make use of a *scale* of prices against each product they sell, in order to provide a standardised discount to customers, normally based on the *volume* of business. Thus when the marketing planner attempts to decide on a manufacturer's selling price he in fact has to try and determine the *average price* he will obtain, bearing in mind these scale discounts. An example may make this clearer (see Table 15.2).

Table 15.2 *Forecast case price*

	Scale price				
Product *X*	*1*	2	*3*	*4*	*5*
Price	£1.00	£0.95	£0.90	£0.80	£0.75
Forecast sales (cases)	1,000	1,000	2,000	2,000	1,000
Forecast gross revenue	£1,000	£950	£1,800	£1,600	£750
Forecast cases sold	7,000				
Forecast gross revenue	£6,100				
FORECAST AVERAGE: CASE PRICE	$\frac{£6{,}100}{7{,}000}$ = 87.14 pence				

In arriving at his MSP the planner will clearly need to know from past history the likely level of sales units he will sell at each scale price in order to arrive at his required average selling price of 87 pence. If he underestimates the volume he will achieve on scales 4 and 5 (but in total still only sells 7,000 cases), his average case price will be *lower* than forecast, and his product will *earn less gross revenue* (see Table 15.3).

Table 15.3 *Case price variance: actual vs forecast*

	Scale price				
Product *X*	*1*	2	*3*	*4*	*5*
Price (£ per case)	£1.00	£0.95	£0.90	£0.80	£0.75
Actual sales (cases)	200	1,300	1,500	1,500	2,500
Actual gross revenue	£200	£1,235	£1,350	£1,200	£1,875
Actual cases sold	7,000 (forecast: 7,000)				
Actual gross revenue	£5,860 (forecast: £6,100)				
Actual average case price	83.71 pence (forecast: 87.14)				

Similarly, if the planner underestimates the level of business achieved on scales 1, 2 and 3 – and overestimates the business achieved on scales 4 and 5 – he will find (more happily) a *higher average case price* and *higher earnings* than forecast.

The ability to make a reasonably accurate forecast of 'volume by scale' is particularly difficult:

(a) For a *new product.*
(b) When making *major changes to the price* of an existing product.
(c) When a product is *losing its brand share* fairly rapidly.

Not unnaturally, the widest level of expertise in this matter is available to most companies through the sales force, whose experience with the use of scales by the distributive trades normally allows for reliable forecasts to be made.

4. *Consumer Price*

Most consumer-goods organisations do not tackle the price problem in the order in which it has been discussed here: starting with the concept of the manufacturer's selling price, establishing the effect of trade margins on that price and then finally arriving at a consumer price. That order is merely one of simplicity and for convenience of presentation. In practice, the pricing of a product more often starts by determining a *desirable* consumer price and then calculating the implications of such a price, via trade margins, on MSP and organisational profitability. Frequently, following such calculations, the desired consumer price is then seen to be incapable of providing the profits required, so fresh prices and fresh calculations are considered. If the gap between the *desired* and the *profitable* price is very wide, the marketing planner may seek lower product costs or in some other way completely rethink his marketing plans in order to circumvent the problem. If the gap is unbridgeable, either through cost reduction or planning ingenuity, the new product idea may have to be 'killed-off'.

The factors which make a particular consumer price 'desirable' to the business organisation are legion, subject to corporate pricing and profit strategy, the willingness to take risks, and the organisation's determination to succeed on a short- or a long-term basis, subject to the frequency and scale of the organisation's previous successes in marketing new products, the dynamism of its marketing and general management, and the perceived efficiency of its manufacturing, selling and distribution operations. In other words, different organisations would price the same product in very different ways, *because they are different organisations.*

Despite the wide variety of factors which will determine price decisions in different organisations, a number of factors critical to all organisations will nearly always be considered as affecting the final consumer price selected, both as to new products and when consideration is given to changing the price of existing products:

(a) *Product strength.* The manufacturer who has a uniquely strong product – one which from previous experience in the market-place, or from market-research tests, is clearly unusually attractive to potential users – has a much wider set of pricing options than the manufacturer who has a sound but undistinguished product to sell. That is not to say that a manufacturer with a strong product will necessarily feel he can afford to charge a premium price ('skimming'), making hay while the sum shines; that will depend on the urgency with which he wishes to seize market dominance ('penetration'). It does mean, however, that both options are open to him, whereas the producer of a 'me-too' product will generally attempt to go no higher in price than any of his competitors' products.

(b) *Product costs.* Clearly, the basic costs of the product will determine the options that are available to the price-planner. Regardless of the variations between companies as to their short- and long-term profit requirements, profits are always required. Every pricing decision will thus assume that, over the long term, some profit must accrue to the company from each brand. Hence, the difference between manufacturer's selling price and the costs that are charged to the product will show a net surplus, and costs are thus a major determinant of pricing options, if not always of price.

(c) *Competitive strengths.* While the uniqueness, or otherwise, of the product will determine its ability to succeed against its market competitors, markets vary considerably in their competitiveness: they will vary in the number of large, competent companies who operate in the market, in the strength of their marketing effort, in the number of well-established and successful brands on sale in the market, in the market's traditions for large-scale expenditure on promotional activities, in the competitiveness and sophistication of the distribution chains which operate in the market-place. In a certain number of such markets price options are extremely narrow, even in the marketing of unique products with distinctive and marketable advantages: competitive reaction may be expected to be fast and fairly brutal should a price premium be set on a product in such markets.

(d) *Manufacturer's marketing power.* For obvious reasons the pricing options are wider for the major manufacturing company than for the smaller operator; or, at least, if the pricing options are the same, the risks perceived by them are very different. For example, an unusually highly priced new product is likely to attract more distributor opposition to its acceptance if it emerges from a small company than if it were launched by a well-known major manufacturer. The application by a small manufacturer of below-average trade margins will be strenuously resisted, whereas it might be accepted from a large manufacturer.

(e) *Company policy.* Many large manufacturing organisations will apply financial rules – a *financial strategy* – on which they expect decisions (marketing as well as others) to be based. Such a strategy, whether formalised or simply traditional, will be a major factor in the financial planning of the company's marketed products. As such, the strategy is bound to be an important determinant of product pricing. The major areas which a financial strategy will cover have already been outlined (pp. 52–4).

5. *Promotional Allowances – 'Off-Invoice'*

It has already been noted that the sales revenue of a company is affected by the standardised discounts built in to the price list (a scale of prices). One further factor needs to be considered in order to understand revenue: *off-invoice promotions and allowances.*

It is possible to categorise the selling of any unit sold (a car, a case of chocolate bars, etc.) under three headings as far as revenue is concerned:

(a) STANDARD TERMS. Where the product is sold by the manufacturer *at the price on the price list appropriate to the customer.*

(b) PROMOTIONAL TERMS: OFF-INVOICE. Where the product is sold by the manufacturer at the price on the price list appropriate to the customer, *less a promotional allowance which will directly reduce the cash* the customer will have to pay in payment for his purchase, i.e. the invoice that the customer will receive will consist of the standard price *less* the allowance he is given as part of a planned promotion. For example, a cash-and-carry wholesaler normally pays the manufacturer £1.00 per case for product *X*. He is offered 1,000 cases of product *X* at 'a special reduction of 10 pence per case'. On standard terms he would be invoived for £1,000: at the promotional price his bill will actually be £900.

(c) PROMOTIONAL TERMS: NOT OFF-INVOICE. In this case the promotional allowance does *not* affect the invoice he receives. For example the same cash-and-carry wholesaler is offered 1,000 cases 'plus an advertising allowance of 10 pence per case'. The wholesaler agrees to advertise this product in his local newspaper, accepts the deal, is given a cheque for £100 for advertising and receives an invoice for £1,000, the standard scale price for him for that product.

The importance of the distinction between the 'off-invoice' and 'not-off invoice' promotion is that while both expenditures are clearly part of the marketing programme – that is, they should both be accounted as marketing expenditures – the existence of the off-invoice promotion requires an accounting procedure which is capable of measuring its application. If *cash received* is all that is accounted for in sales revenue, the expenditure on the first (off-invoice) promotion will simply not appear in the company books: the £900 received in payment for 1,000 cases will be registered, but the promotional discount of £100 will not be. The second promotion presents no such problems, where £1,000 cash will be received in payment for the 1,000 cases, and the cost of the cheque for £100 will also be registered, from whatever company source it came. Failure to register what may be sizeable marketing expenditures makes for poor control of such expenditure.

To allow for the registration of promotional allowances 'off-invoice', companies use the *gross revenue* concept, where *gross revenue* is the cash the company *would have received had it not been for off-invoice promotions.*

From this it follows that *net revenue* is the cash a company *actually receives, after the payment of all allowances affecting the standard terms* given to its customers.

This simple solution to the need to ensure the full measurement of all marketing expenditures is an illustration of the important principle that the truly marketing-orientated company establishes accountancy practices which are orientated to the needs of efficient marketing practice as well as to efficient accountancy practice: the enlightened company accountant would not, in fact, differentiate between the two, seeing them as equally essential to the organisation's financial competence.

While acceptance of this principle is probably widespread among the more sophisticated practitioners of marketing, it is by no means widespread as a general practice among manufacturers, as Mossman, Fisher and Crissy (1974) make clear:

> A recent survey (1972) by the American Accounting Association on cost and profitability analysis for marketing . . . indicates that most accounting systems are not currently designed to meet the specific needs of marketing management. Accounting systems were originally designed to report the aggregate effects of a firm's operation to its stockholders and creditors. In later years, accounting systems had been redesigned to meet internal management needs within the production sector of the firm. The net result is an accounting system which is oriented towards both external reporting and production cost analysis.

6. *Revenue Control*

In a real sense every activity in the business organisation has as its single aim the generation of the forecast level of sales revenue, as a prerequisite to achieving the desired and forecast profit goal. Only by the sale of its products can the organisation make profits. In that sense, then, every control mechanism applied to any business activity is ultimately a means of controlling revenue.

To the extent, however, that the marketing function has been delegated the responsibility of planning and achieving the final step in the process of persuading the market to purchase the product – a step made possible by the competence of all other functions within the organisation – the marketing function has a very particular responsibility in ensuring efficient systems of measuring, assessing and redirecting those activities within its over-all responsibility.

Following the lengthy examination of the constituents of revenue just undertaken, the factors which require to be controlled are now evident. They are:

(a) Control of *consumer pricing/product costs.*
(b) Control of *the price list/trade terms.*
(c) Control of *all promotional expenditure off-invoice.*
(d) Control of *all quantified product-plan objectives.*

(a) *Control of consumer pricing/product costs.* In the case of a *new product* which has yet to be launched, it is clear that the decision as to its consumer price will be a critical determinant of its potential success. This has been made clear previously, as have the factors which are commonly shared by most manufacturers in arriving at the price of a new product (see pp. 48–50). Once established, the price of most consumer products is unlikely to alter radically in its relationship to other, competing products in the market-place. Despite this generalisation, there are occasions when the product planner is forced to make price changes. These have already been discussed and need only to be summarised briefly here. Price changes are considered:

(i) When, due to competitive price changes, the product's pricing position has changed unacceptably.
(ii) When changes in product costs threaten profit margins.

(iii) When a product's price change threatens to breach a known 'price-point'.
(iv) When the product undergoes a major facelift through changes to its formulation or packaging.

Thus, in order to maintain good control of his product's consumer price the product planner requires systems which:

(i) MONITOR COMPETITIVE CONSUMER PRICES. This is usually available to the product planner through sales-force intelligence, since the sales force is generally the first company function to become aware of competitive price changes, both as to changes in competitors' price lists and to consumer pricing in the retail trade. Such information may well be supported by systematic retailer surveys carried out by the market-research function of the organisation.

(ii) MONITOR PRODUCT COSTS. The subject of product costs will be dealt with fully later in this chapter (see p. 179). It is sufficient to say here that the product planner needs continuous information of changes to the costs of his product to ensure that he may have time to respond intelligently, to maximise both the product's profits *and* its competitive price position in the market-place: if costs go up and he fails to initiate a price increase, the brand will lose profits; if he does initiate a price increase, he may lose the product's brand share in the market. The product planner needs to find a solution which resolves these contradictory pressures.

(b) *Control of the price list/trade terms.* In order to retain control over the trade terms, as contained in the company's price list, the marketing function will need to:

(i) REVIEW REGULARLY COMPETITIVE TRADE TERMS, ensuring that its own prices give the distributive trades neither more nor less than are given by competitors, and if there is a difference, that such differences are known, and have been logically arrived at, to serve a special purpose required by the company.

(ii) CONSIDER THE IMPLICATIONS OF CHANGING ITS OWN TRADE TERMS and enact such a change when it appears beneficial to do so. Markets change, products change,

change occurs to the distributive chains employed by manufacturers: under such changes a re-examination of a product's traditional trade terms may reveal opportunities for additional profits to the company and extra benefits to the distributors.

(iii) MONITOR THE APPLICATION OF THE PRICE LIST. A good price list will be unambiguous in its application: the salesmen who use such a price-list will be in no doubt as to which price can be given to which customer, and under what circumstances. In spite of this errors, and sometimes deliberate misapplication of prices, do occur. In the present world of competent computer data systems for management information, devising a programme which pinpoints such errors and misapplications of prices is relatively simple.

(iv) MONITOR UNIT SALES VOLUME BY SCALE. The product planner will want to know the proportion of sales of his product which is achieved on each scale point. This information – obtained by the simple expedient of an analysis of product units sold, split as between each of the scale points – will enable him:

- To monitor the average price (the MSP) of the product. This he may then compare with the forecast set in his product plan – the *standard* against which actual sales may be measured. He may need to take remedial action in the event of a serious and continuing divergence between a forecast average price and an actual average price.
- To note any trends in such data which suggest that permanent changes are taking place in the distribution of the volume of unit sales by scale price.

There exists one problem inherent in the monitoring of unit sales by scale points – and in the monitoring, hence, of the average price obtained for the product: the unpredictable buying pattern of the distributors of fast-moving consumer goods over the short term, i.e. two to three months. For example, one particular major High Street multiple may account for, say, 5 per cent of a particular product's total sales revenue. As a major customer, he will receive a very competitive – i.e. low – price from the manufacturer of that product. Whenever the multiple places a large order, the volume of unit sales for that month will be high *but* the average price obtained for the total sales of that product, in that month, will be *lowered* below average (as a result of the large order sold at a cheap price). Alternatively when that multiple fails to place an order in any one month, the volume of unit sales will be down but the average price will be *raised* above average. If five or six major customers – Asda, Boots, Sainsbury, Woolworth, Tesco and Fine Fare are examples – account for a sizeable proportion of a product's total revenue, then the unpredictability of the buying patterns of these customers assumes considerable importance, and deciphering the average-price information may be more difficult.

This may be exemplified – in a highly exaggerated manner, in order to make the point clearly – by assuming a product sells at only two prices, scale 1 for minor customers and scale 2 for major ones (see Table 15.4).

In the example shown in the table it can be assumed that the total unit sales achieved in each sales period were correctly forecast, and thus at the end of the four periods the total units sold are 'on budget'. But, because it is not possible to forecast with any degree of accuracy the proportion of total sales which will be achieved *scale by scale*, the forecaster will have had no option but to assume that such sales would be made at an average unit price – at 92.44 pence. Because actual sales show a variance, period by period, in the average price achieved – between 90.00 pence and 95.83 pence per unit – the actual revenue achieved in each period is either above or below the forecast revenue: in periods 1 and 3, there is a £61 shortfall on forecasted revenue (2.6 per cent), in periods 2 and 4 a surplus of £61 over the forecast. Such a shortfall may seem small; in fact, it is likely to have a serious – if short-term – effect on the profits that the company will make in those periods, reducing them by a considerably larger percentage than the 2.6 per cent reduction seen in sales revenue, e.g. if the pre-tax profits anticipated for the product were, say 5 per cent of sales revenue, a reduction of 2.6 per cent *in sales revenue* would very nearly halve the profits.

A good deal of time has been spent on this point principally because this very factor – periodic fluctuations in the average price obtained for products – has a marked effect on

Table 15.4

	Sales period				
	1	*2*	*3*	*4*	*Total*
Volume sold					
@ scale 1 (minor customer)	1,500	1,500	1,500	1,500	6,000
@ scale 2 (major customer)	1,000	300	1,000	300	2,600
Total sold	2,500	1,800	2,500	1,800	8,600
Value of sales (£)					
@ scale 1: £1.00 per unit	1,500	1,500	1,500	1,500	6,000
@ scale 2: £0.75 per unit	750	225	750	225	1,950
Total value	£2,250	£1,725	£2,250	£1,725	£7,950
Average price per unit					
Forecast: in pence*	92.44	92.44	92.44	92.44	92.44
Actual: in pence	90.00	95.83	90.00	95.83	92.44
Total value of unit sales					
Forecast (units x 92.44 pence)	£2,311	£1,664	£2,311	£1,664	£7,950
Actual	£2,250	£1,725	£2,250	£1,725	£7,950
Variance: actual *v.* forecast £	(£61)	£61	(£61)	£61	–
%	(2.6)	3.7	(2.6)	3.7	–

* £7,950 ÷ 8,600 units (total value ÷ total units).

the short-term financial health of the business organisation, and is a problem frequently discussed at the highest management levels.

(c) *Control of off-invoice promotional expenditure.* The simplest and most effective system of controlling the incidence and expenditure levels of off-invoice promotional moneys lies in the establishment of routine accounting processes which ensure that all such expenditures are automatically detected, recorded and reported. One or two other factors need, however, to be discussed in this area:

(i) SALES-FORCE CONTROL OF PLANNED PROMOTIONAL QUANTITIES. The expenditure on off-invoice promotions is partly 'controlled' through a clear elaboration of such promotions incorporated in the product plan: each such promotional activity will, as has already been pointed out, be specifically quantified and costed. It is up to those who will administer such a promotion in the market-place to make sure that only the agreed promotional quantities are sold, no more and no less, and that the promotional terms (and hence the cost of the promotion) are also adhered to.

(ii) MEASURING PROMOTIONAL EFFECTIVENESS. The marketing function will, in its control activities, also need to establish the effectiveness of the promotions it has undertaken, in order to measure the cost-effectiveness of the promotion in achieving its objectives, and to justify the use of such promotions in future times. The techniques and systems used to provide such measurements will of course vary widely; the principal sources of information will stem from the sales force, which will expedite the promotion, and the market-research function, which may have many means of measuring its success or failure.

(iii) REDUNDANT STOCK CONTROL. Consumer promotional activity 'on-pack' will inevitably result in some 'left-overs' – for example, specially printed packs for a 'pence-off' promotion left unsold at the end of the promotional period. The marketing function will need to maintain good 'housekeeping' routines in order to minimise the possibility of having to write off too much expensive stock.

(d) *Control of all quantified product-plan objectives.* It has already been said (p. 171) that in a real sense all company activities are ultimately concerned to generate sales revenue, directly or indirectly. It is also in that sense that the *annual product plan* is expected to have a very direct effect on revenue – every objective of that plan, for that product, is geared to stimulate the achievement of the targeted sales revenue. Advertising objectives, pricing objectives, promotional, distribution and packaging objectives, etc., are specifically planned in the hope that they will, in combination, result in the desired sales-revenue goal.

From this it follows that one critical element of revenue *control* must lie in the planner's constant monitoring of the progress of all the elements in his plan. If there is a failure to achieve the forecast revenue, the answer will probably lie in the failure to achieve one or more of the sub-objectives built into the plan;[7] logically, if the product plan postulated the achievement of revenue goals *by means* of a complex set of sub-objectives, failure to achieve one or more sub-objectives must rank high as culprits for the failure of revenue. Hence – in a marketing-orientated consumer-goods company – the obvious importance of the market-research function, which provides a continual flow of measurements across the spectrum of marketing activity designed to attain revenue.

EXPENDITURES

Introduction

The previous section has outlined the essential elements involved in the business organisation's *revenue.* In the financial document which such an organisation calls its *revenue account* (or its *profit and loss account*) the first entry is always 'sales revenue' (gross or net): it is the only entry in the account which involves a financial input into the organisation. The remainder of the revenue account is solely concerned with the way *expenditures* by the organisation reduce this figure of sales revenue until only the profits are left as the residual (*income*) of all the organisation's activities. To enable the organisation to control its revenue, it is clearly vital that the earning power of *each* of its products should be separately and distinctly recorded and monitored; if the organisation only ever looks at its revenue information *for all its products combined*, it may never know which product is accounting for its over-all success or failure in its progress towards its revenue goals.

Recording *revenue* separately for each product is extremely simple, requiring virtually no special effort on the organisation's part to do so. To record and monitor the *profits* of each of its products separately is, however, a far more difficult task. The profit – or income – from a product is simply what is left of its revenue when every cost and expense incurred against that product has been paid for: this concept is pre-eminently simple. The problem arises when the organisation comes to decide which costs and expenses have been incurred on behalf of any one particular product.

The subject of an organisation's expenditures, in relation to the taking of marketing decisions, may be usefully discussed under four headings:

1. Costs and their allocation.
2. Direct marketing expenditure.
3. Indirect marketing expenditure.
4. Cost responsibility and control.

1. *Costs and their allocation*

In an ideal world every company would like to be able to know very precisely all the costs involved in the making, selling, promotion and distribution of each of its brands. In this way it could add up all the bills accruing to any one brand, deduct such charges from the revenue the brand had earned, leaving a profit remainder which was, thus, an exact measure of the profitability of that brand. For the company that produces one product, without variants, this is a possibility: all costs incurred by that organisation must, of necessity, be incurred on behalf of that product, whether the costs are incurred in the making of the product, or in running the staff canteen or the managing director's company car. The total costs of such an organisation need only be split among the total units of product it sells for the actual costs of the product to be clear. There would still be certain problems to solve in such a system, but in principle product costs could be estimated very accurately.

The trouble arises from the fact that the great majority of business organisations sell not one but a multitude of products, in a variety of sizes and designs, fulfilling a wide variety of market requirements. In such a company, how much of the costs of running the staff canteen, or the managing director's car, should be charged to each product? How accurately (logically) could such a division of costs be made? How frequently would such cost-allocation decisions have to be changed, as products themselves develop and change? The problem is not that such systems cannot be developed – everybody working for the company can, for example, be trained to develop skills in monitoring the time they spend daily on activities concerned with specific brands – but that the time and effort required to operate such a costing system would very soon overwhelm all other company activities; such a system would, in other words, be hopelessly cost-ineffective.

Faced with this problem, companies have learned to discriminate between costs which are *readily assignable* to individual brands, and those costs which are *difficult to assign* to brands. Some examples of these different types of costs – found within a manufacturer of fast-moving consumer goods – may make this distinction clear:

READILY ASSIGNABLE COSTS

Materials. Many products have items incorporated in them, during the process of manufacture, which are quite specific to individual brands or models: specific chemicals, machined parts, printed labels, closures – the list is endless. When such items are used only for one specific brand or model, clearly the cost of such items can only apply to such products and may be accurately charged to them. Many products have items incorporated in them which are common to a variety of products made by the company: a particular model of washing-machine, for example, may have a motor incorporated into it which is a standard motor also incorporated in other washing-machine models the firm produces. But the firm will know the cost of such a motor and will know that each washing-machine will carry such a motor. Charging such an item to a particular model is clearly quite simple.

Labour. Some of the firm's work-force will spend their working time exclusively on the manufacturing processes of one specific product. Others may divide their time between the manufacturing functions of a number of different products but in a way that makes it easy to measure, e.g. working one week on product X, the next week on product Y, etc., so that the cost of their labour may be readily assigned to specific products.

Other costs. A certain number of costs incurred by the firm will also be readily assignable to particular products:

- Most promotional expenditures carried out by the marketing function are geared specifically to individual brands. Most advertising campaigns in the consumer-goods field are concerned to promote one product, as are most trade and consumer promotions.
- The cost of buying and running machines on the factory floor will be assignable to specific products where such machines are used on one product, or on a limited number of products.

COSTS THAT ARE DIFFICULT TO ASSIGN

Materials. The organisation will purchase many materials which are difficult to assign to products: office stationery and equipment, materials used in the maintenance of the buildings (paint, floor-cleaning equipment, etc), food for the staff canteen.

Labour. A large percentage of the work-force will not be working directly on the production processes of the organisation — administrative staff, computer programmers, public-relations officers, managing directors, janitors, salesmen. The apportionment of the salaries and expenses of all these people to specific products would be both difficult and inaccurate.

Other costs. A good deal of machinery is bought which will be used for a variety of purposes in a very variable (unforecastable) way: much of the equipment in a maintenance engineering workshop will be used to cope with machine breakdowns and maintenance in a way that is sufficiently haphazard as to make a cost apportionment impossible, or at least highly unreliable.

Because of the problems outlined above, business organisations have had to relinquish the ideal of accurately assigning *all* costs to individual products, and work, instead, towards the identification of the *maximum level* of assignable costs, leaving all unassignable costs to be allocated to products as best they can.

This compromise leads inevitably to the fact that, for most products, profitability measures are only a broad approximation of reality. It is simply not possible to provide precise statements of the profits that *actually* accrue to a company when it sells any one particular product.

It also follows that the more its costs can be meaningfully assigned to a product, the greater the reliability of the profit estimates made for that product: if 80 per cent of costs can be assigned accurately, the arbitrary allocation of the remaining 20 per cent will have less bias on *real profits* than if only 30 per cent of its costs can be assigned to the product while 70 per cent are allocated arbitrarily.

In the business organisation which makes the attempt to distinguish its costs into 'assignable' and 'unassignable', the terms used are *direct* and *indirect* costs, respectively.

'Cost-of-goods'. The bulk of the costs which are incurred in the making of a product *and which are assignable to that product* are often referred to as the 'cost-of-goods'. (They are also known as *variable costs*, because they vary directly with the production process: over a short period of time, if production of a product is doubled, these costs will also double.) For most products, the cost-of-goods will consist of those material and labour costs, plus any assignable machine and other costs, *which are automatically incurred in the process of producing that product* – short of changing its technical specifications. They are *inescapable costs*: short of sending out a non-functioning washing-machine, it will always *have to* contain a motor to enable it to function. The motor for that machine will feature as part of its 'cost-of-goods'. Cost-of-goods is thus a *direct cost.*

It must be pointed out that not all direct costs are (as in the above example) inescapable. An advertising campaign for a product is clearly a direct cost, but it does not *have to* take place: its expenditure may be reduced or cancelled.

2. *Direct Marketing Expenditure*

Marketing expenditure – expenditure incurred specifically in the process of the enactment of all the organisation's marketing functions of planning, selling, promoting and distribution – may be either *direct* or *indirect* as to its cost category. In the discussion of revenue some note has already been taken of such marketing expenditure: off-invoice promotional expenditure (see p. 169). Such off-invoice promotional activity, being virtually always directed to promote specific products, is assignable to such products and, as such, is a *direct* cost to the company. In fact, virtually all other *promotional* expenditure is direct, as most, if not all of it, is directed towards the promotion of specific products to which the cost may be assigned. Such expenditure does not of course affect the company's sales revenue and is, hence, *not* off-invoice. The major categories of such expenditure are as follows.

(a) *Advertising expenditure.* For many fast-moving consumer goods, particularly for those in highly competitive and heavily contested markets, expenditure on advertising (often referred to, rather mysteriously, as 'above-the-line expenditure') is frequently by far the largest promotional cost to the company. The great bulk of such expenditure is to be found in the cost arising from buying 'time' (in the case of television, radio and the cinema) and 'space' (in the case of print and poster advertising). 'Media buying', as this activity is called, is not, however, the only expenditure incurred: considerable sums of money may be spent on the production of the advertisements themselves – the costs incurred in making cinema and television commercials and designing and printing posters, for example.

(b) *Trade and consumer promotions.* A great variety of promotions aimed either at the distributor or the consumer also require careful monitoring and control. Some typical promotions in this category might be:

(i) Consumer competitions, through press advertisements or 'on-pack', offering prizes to the public.

(ii) Self-liquidating offers to the consumer, in which an offer of a bargain-price item is made in return for, for example, 'three packet tops plus £1.50'.

(iii) Special promotions among cash-and-carry wholesalers which provide an advertising allowance of, say, 10 pence per case for every case ordered.

(iv) A competition for wholesaler salesmen in which prizes are given for a certain level of achievement in selling the firm's product.

None of these promotions will affect the actual price paid for the product either by the trade or the consumer and, as such, do not appear in the 'off-invoice' category.

(c) *Design expenditure and promotional materials.* Most consumer-goods companies spend considerable sums of money on the design and printing of material to enable the marketing function to achieve its objectives. This sector is not to be confused with expenditures on advertising projects, but refers to items such as packaging design, the design and print costs of point-of-sale material, salesmen's aids, product brochures, exhibition stands and the hundred and one other items required in the process of selling the product to the consumer. The design work is, more often than not, carried out by specialist design agencies and printed by independent printers.

(d) *Public relations and market research.* It is often possible to cost and charge to specific products public-relations programmes and market-research surveys or audits. The marketing expenditure budget for a particular product may feature such costs, and these will require monitoring and control.

3. *Indirect Marketing Expenditures*

The expenditures and costs discussed so far have all been 'direct', chargeable to individual products and, as such, helpful to decisions concerned with maximising company profits over the long term. They have also been costs and expenditures over which the marketing fuction has either direct control (marketing expenditures) or, at least, a considerable influence (cost-of-goods).

All other costs incurred by the business organisation are 'indirect': difficult or impossible to assign to individual products with any useful degree of accuracy.

Among such indirect costs are some that are the specific concern of the marketing function: the costs of operating the sales force, and the distribution function.

The sales force. It is self-evident that expenditure on a company's sales force is a marketing expenditure. It may be less obvious that such an expenditure is, in most consumer-goods companies, an *indirect* marketing cost. Most organisations require that the sales force sells a range of products: a cursory examination of a company price list will reveal a fairly long list of products – anywhere from 20 to 200. It follows from this that the task of assigning sales-force costs as between these products will always be a complex operation. Furthermore, the actual time spent by individual salesmen on any particular product will vary according to the range of customers in their territories, the different levels of brand share that may exist from territory to territory, the level of enthusiasm for each product as between different salesmen, the particular territorial marketing problems, and so on.

Finally, the amount of time spent on the selling of any one product might be carefully forecast at the beginning of a sales year but, as the year progresses, more or less time might have to be spent on that product, as market forces create new problems or new opportunities.

In practice, most companies cut the Gordian knot by refusing to apportion sales-force costs as between products. The costs are thus indirect.

For the majority of consumer-goods companies the actual costs incurred in running an effective sales force are considerable. The great bulk of such costs are incurred, of course, in the payment of salesmen's salaries and expenses. In total, sales-force costs may amount to 5–10 per cent of total sales revenue. As such, the marketing function will need to develop considerable skills in the management and control of such sums. Those executives who are given the responsibility for managing the sales force will almost certainly draw up a fairly detailed plan each year as to how they plan to deploy selling resources, and justify the expenditures arising from such deployment. Such a plan will be dovetailed to the requirements of the product marketing plans, as well as to the exigencies of the market-place in terms of selling needs.

Discussion of the sales plan is outside the scope of this book; it is a complex subject which can only be treated properly at some considerable length.

Distribution. The distribution function is as complex and important as the sales function and, equally, cannot be discussed here in any detail.

The distribution function is concerned with the movement of the company's product from its point of manufacture until it arrives into the hands of the final distributor – the retailer or the wholesaler. The complexities of distribution expenditure are spread across a whole range of elements: it includes the running of an efficient storage system for the company's finished product, the effective use of transportation and transport systems, the design and reliability of packaging systems (pallets, merchandisers, shipping cartons, freight containers and a dozen others), liaison with freelance freight companies, railways and airlines, co-operaton with wholesale and retail operators as to delivery systems, co-operation with the sales and marketing planning functions, the manufacturing and packaging functions of the company, and the administration of the general management function of company logistics.

Every year – and subject to the requirements of individual product plans – the distribution function will re-examine its existing systems, modify them as required, cost out the modifications and present its plan to the organisation's management for approval.

4. *Cost Responsibility and Control*

Much of the control that can – and must – be exerted by the marketing function over the expenditure associated with each particular product is achieved through fairly simple accountancy reporting procedures that provide the marketing planner and the company with the means to monitor such expenditures on a continuous basis. The two crucial elements in such procedures are:

(a) That they should be *product-based.*
(b) That they should be *frequent.*

Thus is born the *monthly financial product report.* Compiled by the financial function of the company, such reports provide the organisation with an up-to-date review of each product in terms of its achievements against agreed financial goals (see Table 15.5 for an example).

A number of features about the sample financial report shown in Table 15.5 need to be pointed out:

(a) The company is concerned at all times to compare *actual* results against the company's *planned* results, e.g. unit sales for May totalled 110 per cent of planned sales and, cumulatively to date, sales of this product totalled 105 per cent of planned sales.

Table 15.5 *Product X: financial report (May 1979)*

	May 1979			1979 to date		
	Actual	*Plan*	*%*	*Actual*	*Plan*	*%*
Unit sales (000)	220	200	100	1,050	1,000	105
£000						
GROSS REVENUE	66	62	106	315	310	102
Cost-of-goods	31	28	111	142	140	101
NET CONTRIBUTION	35	34	103	173	170	102
Marketing expenditures						
Advertising	3	3		15	16	94
Sales promotion						
Off invoice	2	2		8	8	100
Other	2	2		9	8	113
Other	1	2		2	3	67
Total	8	9		34	35	97
MARKETING CONTRIBUTION	27	25	108	139	135	103
Unit price (pence)	30	31		30	31	
Cost-of-goods as % of gross revenue	47%	45%		45%	45%	
MARKETING CONTRIBUTION AS % OF GROSS REVENUE	41%	40%		44%	44%	

(b) The report format is concerned both with the month on which it reports and *its contribution to the year to date.*

(c) The report limits itself to reporting *direct costs* – all those costs and expenditures which can be accurately charged to the product. As will be seen later, when we come to discuss the revenue account, a product's performance up to the marketing contribution stage is the most crucial test of its efficiency of the contribution it makes to the over-all profitability of the business organisation. Past this point, the actual profits made by the product are less certain because cost allocations become more speculative. This 'point' is referred to here as the *marketing contribution*, the term usually given to it in consumer-goods companies.

The company executive receiving the report shown in Table 15.5 is able to see at a glance:

(i) Over all the product is a little ahead of target for the month, with a marketing contribution 8 per cent ahead of the plan for May.
(ii) The May performance continues a trend, inasmuch as year-to-date sales, and contribution, are all ahead of the plan.
(iii) The critical cost-of-goods/gross revenue ratio is worse than planned (47 per cent versus the plan's 45 per cent), and this appears to be due to a poorer unit price average in selling the product (30 pence per unit versus a planned 31 pence). This appears to be a continuing trend – the same comparison is observable on unit price in the year-to-date figures. Pricing and costing may require investigation.
(iv) Marketing expenditure appears to be well in control.
(v) On the whole, the product is doing well, there are no serious problems – no alarm signals – *but* the matter of unit price requires investigation.

A monthly report on the financial status of a product is therefore a central control mechanism on the health both of the revenue and of the expenditure accruing to that product. The measure of its financial parameters against those set in the operational plan ensures that the essential goals of the product are always present.

It is, needless to say, simplicity itself to amalgamate individual product reports into a complete single report for all company products, measuring the over-all achievements of the organisation on a monthly basis.

Within an organisation which devolves real financial responsibility to its marketing-planning function, such reports are the ultimate objective assessment of that function's efficiency.

Control of cost-of-goods. While the expenditure by the marketing function on advertising, sales promotion and their associated costs (*direct* marketing costs) and on the sales force, market research, public relations and distribution functions (*indirect* marketing costs) are clearly the responsibility of the marketing function, the position of cost-of-goods as a responsibility factor is ambiguous.

Clearly the marketing function does not dictate how a product should be made, either as to its material or its processing content: neither product managers nor marketing directors are in the habit of dictating to the manufacturing function how they should run their factories. Nevertheless, cost-of-goods can be seen to be the single largest cost factor determining the success or failure of the product's marketing contribution. A number of factors make such an ambiguous arrangement possible:

(a) *Setting cost standards.* When a company is considering the possibility of launching a *new product*, a key factor determining its eventual launch will be the new product's estimated manufacturing costs. Assuming such a cost estimate is considered reasonably accurate, the marketing decision as to whether or not to launch the product will be based on the 'acceptability' of the cost both to the company's long-term profit opportunities and, by implication, to the consuming market. Should such costs result in an unacceptably high consumer price, or, given an acceptable consumer price, an unsatisfactorily marginal level of company profits, the marketing function will recommend a new approach to costs, i.e. a reappraisal of manufacturing factors which will lower costs.

In this give-and-take discussion concerning cost-of-goods, marketing will ultimately determine the actual cost – because it provides the best estimate of the market's acceptance of such costs.

If no solution to high costs is possible, the marketing recommendation will usually be to jettison the new-product project as an unsolvable problem.

If the paragraphs above, concerning new-product costings, apply, it follows that *products already existing in the market-place* generally possess a price–cost–profit structure that is broadly workable in the market-place. The problem that remains is that of monitoring costs such that the original, acceptable, cost structure does not alter in any way such as to reduce the marketability of the product.

In writing his product plan, the product manager will want to know what cost changes may occur, over the planning period, which might result in such a change; there is no value in creating a brilliant and dynamic plan of marketing activity for a product whose cost parameters are going to change so radically that no amount of marketing effort will prevent a major decline in the product's market position.

Furthermore, the product planner will want to avoid having to cope with wildly fluctuating product costs through the planning year: he not only requires a forecast of future costs, he also wants an *average* cost with which to work. Should his product costs be determined largely by the price of a material which suffers from, for example, seasonal price changes – most food products have some ingredient in them to which this applies – he will want to have a forecast cost which smoothes out these variations. It can be readily appreciated that the monthly product report is meaningless as a measure of marketing and company competence if it incorporates sharp, short-term fluctuations in the cost-of-goods. Consumer-goods companies – particularly those which manufacture (as most do) mass-produced, high-volume identical products – resolve this problem by the provision of a system of *standard costs*, estimated to apply over a reasonably long period of time (twelve to eighteen months), accounting for anticipated changes and fluctuations. By continuously monitoring the *variance* as between *standard* and *actual* costs, the product manager, and the company, will be able to pinpoint unexpected changes, monitoring cost trends through the year. An example of such a routine is exemplified in Table 15.6.

Table 15.6 *Product X: cost variance, £ per unit (May 1979)*

	Standard (plan)	Actual 1 Jan	1 Feb	1 Mar	1 Apr	1 May
Gross revenue	1.00	1.02	0.98	1.03	1.01	1.00
Cost-of-goods	0.47	0.47	0.48	0.48	0.48	0.49
Net revenue	0.53	0.53	0.52	0.52	0.52	0.51
Net as % of gross	53%	54%	52%	53%	52%	51%

In the report shown in Table 15.6:

(i) The gross revenue would be taken from the sales that actually took place in each month.

(ii) The *standard* cost appears to have been underestimated for the year: set at 47 pence, the *actual* costs have been climbing ever since February, and by May were 4 per cent higher than standard (at 49 pence). It requires investigation.

(iii) As a result of changes in cost-of-goods, the basic profitability of the product is of course being eroded: it is losing 2 pence per unit, at the net revenue level (down from 53 to 51 pence) versus the planned revenue.

(b) *Monitoring standard costs.* The setting of standard costs (for cost-of-goods) is a skilled and complex procedure, carried out usually between cost accountants, manufacturing management and materials management (the function also known as *purchasing*, responsible for the company's buying activities). While the work tends to be carried out meticulously and professionally in most companies, the vested interests of the marketing function normally ensure that it takes a keen interest in the procedures and the end-results of such practices. It is also inevitable that a good deal of judgement is involved in setting cost standards, as well as a good deal of science; the marketing practitioner may well want to be involved in such judgements as have to be made. It is for these reasons that marketing will want to be sure that these costs are:

(i) *Up to date.*
(ii) *Relevant* only to the product for which the standard cost is set. All sorts of irrelevant costs may accidently be applied to a product cost.
(iii) *Detailed:* unless *all* costs are itemised, it is not possible to agree that they are accurate.
(iv) *Easy to monitor*:, that regular reports – as the one exemplified above – are maintained on the variance between actual and forecast (standard) costs.
(v) *Regularly reviewed*: marketing – as well as manufacturing and general management – will be concerned to know that alternative materials and manufacturing processes are considered as a way of reducing product costs and maintaining marketing competitiveness.

(c) *Controlling marketing expenditure.* Maintaining a firm control over marketing expenditure is largely a matter of the development of book-keeping practices geared to recording those expenditures, something all financial functions cope with as part of their accountancy routines. The monthly product report is a summary of such practices, geared to the marketing requirements of expenditure allocation by product. In those expenditures in which agents are used – advertising, public-relations, etc. – the agents will themselves provide a control system to ensure that their clients are fully informed and satisfied with patterns of expenditure through their operations.

Other than the need for any company to maintain competent accounts on all its expenditure activities, there is a particular need for the up-to-date and precise recording of marketing expenditure; the speed with which problems and opportunities can develop in the market-place means that a good deal of the marketing expenditure budget must be available for reallocation, from one planned promotional activity to a fresh, unbudgeted activity, as a result of the need to respond to the exigencies of the market-place. Hence, most marketing departments will want to know at all times how much of their promotional budget – product by product – is already spent, how much is inescapably committed and how much is available for reallocation. This fluidity in budgeting ensures that the maximum resources of the company will be used to react to the market-place as it develops week by week, month by month.

Important as the quality of accounting and reporting systems is in the control of marketing expenditures, the ultimate aim of a promotional budget is not that it should be spent. It is, rather, that it should achieve the marketing objectives for which it was devised. Hence the most important control mechanism lies in the organisation's ability to measure the effectiveness of the promotions used and, thus, to justify the money spent. Subject to it being cost-effective to do so, market-research techniques will be brought to bear to achieve just such an aim, determining what tangible gains were made by the organisation's promotional programmes – in such terms as increased consumer awareness of the product, increased product distribution, increased brand share, improved product and corporate images, and so on.

THE REVENUE ACCOUNT

All the major marketing ingredients of the revenue account have now been examined. The constituent elements of sales revenue have been discussed, the primary cost and expenditure elements in which the marketing practitioner is principally concerned have been reviewed, as have the systems and procedures for their control.

The summation of all these ingredients lies in a full revenue account which the product planner would incorporate in his plans.

The revenue account for a particular product sums up the purpose for which all planning, execution and control take place: it is at once the shortest and the most precise statement of the financial and marketing health of the product. The (forecast) revenue account incorporated in an annual product plan is the shortest and the most precise statement of marketing intentions and ambitions.

The structure of the revenue account (bearing in mind that every company will vary the structure to suit its own needs) has already been seen in the guise of the monthly product report: the full account differs from it in as much as all expenditures – including indirect ones – are added to it. The example of the revenue account shown in Table 15.7 is

Table 15.7 *Product X: revenue account, 1979*

Units sold (000)		1,000	
		(£000)	(%)
GROSS REVENUE		2,300	100
Cost-of-goods		1,058	46
NET CONTRIBUTION		1,242	54
Marketing expenditure			
Advertising		161	7
Sales promotion			
Off-invoice		23	1
Other		92	4
Other		23	1
Total		299	13
MARKETING CONTRIBUTION		943	41
Indirect costs			
Sales force			7
Market research	Marketing		1
Distribution			6
Manufacturing			10
Administration	Other		5
Other			3
Total		736	32
PRE-TAX PROFITS		207	9
Net revenue		**2,277**	**99**

given in a simple (one-year) form, so that the reader may more readily indentify the constituent parts. The revenue account presented in a product plan would more resemble that shown in Table 15.8, in which the plan year is compared with previous years.

A number of points need to be considered in examining the sample revenue account shown in Table 15.8:

(1) *Unit sales.* The presentation of a revenue account which refers to a single product should always show the unit sales associated with the financial figures. The interpretation of the 1979 plan financial data would be very different if the unit sales forecast associated with it was showing a downward or stable trend, or if the unit sales increase was 20 per cent and not the 10 per cent shown.

(2) *Indirect costs.* Different organisations will arrive at different systems of charging individual products with their share of indirect costs. One widely used system is to charge each product a percentage of that product's gross revenue which equals the cost of that element (sales force, manufacturing, etc.) as a percentage of the organisation's *total* gross revenue. For example, if the cost of running the sales force is forecast to be 7 per cent of the company's total gross revenue, then each product will be charged *7 per cent of the gross revenue of that product.* Hence, as long as the company achieves its forecast gross revenue, the money required to run the sales force will have been 'collected'. Because there is no way of being precise about the *actual* costs which accrue to the product from work carried out by the sales force, market-research, distribution, manufacturing and administration functions, only the percentage of gross revenue allocations are shown, and not the sterling figures; this is a way of reminding the executives who may study the revenue account that such costs have an arbitrary element about them.

(3) *Presentation format.* While the physical lay-out of the revenue account is of very minor importance relative to the financial significance of its contents, a number of elements do contribute significantly to the ease with which these data can be absorbed:

(a) *Crucial data are highlighted.* The critical net and marketing contribution figures are highlighted, as well as the pre-

Table 15.8 *Marketing plan: product X revenue account, 1979*

		1977 Actual		1978 Forecast		1979 Plan		1979 versus 1978 Change(%)	
Unit sales (000)		840		910		1,000		90	+10
		(£000)	(%)	(£000)	(%)	(£000)	(%)	(£000)	(%)
GROSS REVENUE		1,600	100	2,000	100	2,300	100	300	+15
Cost-of-goods		752	47	940	47	1,058	46	118	+13
NET CONTRIBUTION		848	53	1,060	53	1,242	54	182	+17
Marketing expenditure									
Advertising		96	6	120	6	161	7	41	+33
Sales promotion									
Off-invoice		16	1	40	2	23	1	(17)	–42
Other		64	4	100	5	92	4	(8)	–8
Other		16	1	20	1	23	1	3	+15
Total		192	12	280	14	299	13	19	+7
MARKETING CONTRIBUTION		656	41	780	39	943	41	163	+21
Indirect costs									
Sales force	Marketing		7		7		7		–
Market research			1		1		1		–
Distribution			6		6		6		–
Manufacturing	Other		10		10		10		–
Administration			5		5		5		–
Other			3		3		3		–
Total		512	32	640	32	736	32	96	+15
PRE-TAX PROFITS		144	9	140	7	207	9	67	+48
Net revenue		1,584	99	1,960	98	2,277	99		

tax profit data. Visual emphasis is placed on the 1979 'box' – it is these data which require discussion and agreement.

(b) *Readability of figures.* In presenting financial marketing data it is much simpler to read quantities with the last three digits left out. A passion for unnecessary precision makes many accounts documents almost unreadable.

(c) *Percentaging.* The habit of percentaging all financial data makes possible far quicker effective financial interpretation of such data.

Pre-Tax Profits

In discussing the revenue account the final element requiring examination is that of pre-tax profits. There is considerable controversy in business organisations about the value of ascribing specific pre-tax profit figures to individual products. Without being able to assign accurate costs in those areas labelled 'indirect costs', the *actual* profits made by any one product is clearly an approximation and not a fact. To take an example from the product *X* revenue account in Table 15.8: the planned profit for 1979 amounts to £207,000 *because* it is assumed that indirect costs will total approximately £736,000. If the *real* indirect costs are understated by 30 per cent, the product will actually be making a loss; if the real indirect costs are overstated by 30 per cent, the actual profits will be twice as large. The product's profitability, in other words, hinges on the validity of broad and unmeasurable assumptions.

In spite of these considerable qualifications, it is still important to the company and the marketing planner that such estimated pre-tax profit figures are attached to individual products, and this for a number of reasons:

(1) *Trend value.* It is reasonable to suppose that for many products the inaccuracy built in to indirect-cost charges remains a fairly constant factor over time. It is above all the *trend* in the profit levels of products which stimulates marketing response to product planning, and knowing this trend is therefore very important in determining the attitude to take in planning the future of the product.

(2) *Size of inaccuracy.* Given a sensible system of assigning indirect costs to individual products, it is probable that the level of inaccuracy is not such as to make the resultant profit level as meaningless as critical arguments might suggest. Most companies will have little difficulty in realistically dividing their products into broad groups of those which are 'very profitable', 'profitable', 'marginal' and 'unprofitable', and their product revenue accounts will support such a judgement. Most marketing decisions will be taken in the knowledge, therefore, that profit margins for individual products are either unsatisfactory or satisfactory.

(3) *Motivation.* As long as marketing and other company personnel do not attach too much significance to the precise levels of profit calculated for individual products, the level of motivation induced in such personnel – to improve poor profit-earners and to maximise profits on good profit-earners – is much enhanced by their ability to identify with pre-tax profits. To restrict marketing ambitions to improving the 'marketing contribution' is psychologically much less rewarding to the marketing function than aiming to improve pre-tax profit levels – however irrational that may be. This is, in a way, similar to the relative satisfactions gained as between the relay-team member who runs the last leg and the members who run the intermediary stages.

(4) *Profit responsibility.* The product planner must always endeavour to recommend decisions which have profit as their rational basis. It should be easier for him to see ways of improving product profits than anyone else in the organisation – he lives more completely with the product than anyone else. (That is what he is paid for.) The company should need him to be concerned with ultimate profits, otherwise he may lose sight of the basic purposes of the product for which he plans. Hence his necessary interest in 'the bottom line' of his product's revenue account, pre-tax profits.

Chapter 16

Control and Market Research

The ultimate means by which the business organisation achieves its aims – of growth, development, profitability and the security and happiness of all the stakeholders in the organisation – is through its ability to persuade customers to buy and rebuy the products which it has for sale.

It follows from this that the organisation needs to establish the level of its success in its consumer-persuasion abilities. *It requires some measuring device* by which it may decide whether or not it has been successful.

An organisation devoted to the principles of planning and controlling its destiny – of knowing instead of guessing – will be certain to insist on such measuring devices, and will establish a market-research function in order to ensure that it is supplied with the necessary measurements.

Reduced to its simplest and most primary function, the disciplines of market research are concerned to measure and explain the precise nature and meaning of the achievements of the business organisation in the market-place, in order to provide it with some of the essential information necessary to make further and more profitable achievements.

From the sales orders of its products or services, the organisation can see *the extent* to which it has been successful, but it cannot see *why* it has been successful. While most organisations, having been deeply immersed in their markets for many years will be able to make intelligent and frequently correct estimates of the cause of their sales success without resorting to market research, they will rarely be in a postion to know when their diagnoses are correct and when they are incorrect. And, equally importantly, they will never be in a position to know *the extent* to which their analysis of cause and effect applies to any particular situation, and they will never know whether it is the relative importance of *any one* factor which is responsible for the particular phenomenon they are trying to explain. That experience, and intuition gained from experience, frequently enables a company to guess the factors which account for its success without having recourse to market research accounts for the disappointment experienced by many organisations which employ market research for the first time, in that it often 'fails' to provide new and totally unexpected data to illuminate an old problem. Often it simply confirms what had been a widely felt belief.

In fact, such an experience underlies one of the major values of market research: its insurance function. To be disappointed with market research on the basis that it reveals nothing startlingly new is human but foolish: by confirming belief and turning it into a fact, market research reduces the areas of doubt to which most business decisions are subject. Without such confirmation the belief is still just a belief, and may be accepted or rejected according to personal whim. A belief is no less a matter of doubt because it is held by the managing director or the chairman; it is not less true because it is held by the most junior product manager.

Market research reduces uncertainty by the substitution of sampling techniques for personal opinion. In an organisation that has learnt to rely on market-research data, personal opinion still abounds, but it is more willingly jettisoned once it is clear that research data will not support it.

BENEFITS OF MARKET RESEARCH

It is valuable to summarise other benefits that accrue through the exercise of market research as a means of improving organisational competence:

(1) *Reduces uncertainty.* Perhaps the primary benefit of the availability of sound market-research data is that it narrows – though it almost never eradicates – the areas of uncertainty in the process of decision-taking. The reduction of uncertainty, regardless of other benefits, is cost-efficient. It is probable that data-based organisational decisions waste

less money — through a lower level of failure — than applies to organisations which have little or no information on which to base their decisions.

(2) *Reduces argument.* Even with the data that can be made available through the use of market research, there remains much uncertainty in the interpretation of the marketplace. Without such data, however, much more unnecessary and time-consuming argument is inevitable. Ultimately such arguments can only be resolved, on an arbitrary basis, on the seniority principle: the chairman wins.

(3) *Reduces decision delays.* It is a natural phenomenon of human nature that uncertainty breeds caution in decision-taking. Faced with little information and a complex problem, the need to take a decision will inevitably take more time. Against this factor, of course, must be offset the fact that collecting market-research data itself takes time; the delays resultant on that fact are, however, due to poor planning rather than anxiety or fear of taking the decision.

(4) *Increases confidence.* The systematic collection of information on which to base decisions inevitably increases the confidence with which decisions can be taken, and confidence is in large part a cause of success in most human achievements. The availability of a competent market-research function increases confidence in other, subtler, ways. The increased professionalism of the organisation through its use of market research becomes evident to employees, customers, shareholders and other groups who are in touch with the organisation. A feeling is generated that here is an organisation which clearly knows where it is going, clearly knows what it is doing and on what basis it is doing it.

From an internal, company-orientated, point of view, there is also the increased confidence that the number of unexpected surprises in store for the organisation is considerably reduced as a result of market research's watchdog role: the sudden expansion of competitive market shares, the unexpected success of a new competitive product, the unforecast decline of the organisation's own products, and changes in consumer opinion towards the market, are all examples of market forces which can play havoc with an organisation's long-term profits — and which competent research will diagnose early and on which it will provide a valuable early warning, enabling the organisation to reassess its positon and its tactics in the market-place before too much damage is done.

(5) *Company chronicler.* The management of an organisation is frequently in the hands of men and women who have had no extensive experience of the organisation for which they are working: there is an increasing mobility among decision-takers in their willingness to move from company to company as their ambitions dictate. In such circumstances there is a need within the company for some documentation of the history of its markets and of its activities in those markets over the years: new products that have succeeded and failed, promotions that have succeeded and failed, markets that have changed. The market-research function is perfectly suited to provide such a historical background to current marketing decision-making. To make a bad decision in marketing planning may be inevitable. But to make it twice for want of simple record-keeping is just bad management.

(6) *Consumer representative.* The market-research operative in a consumer-goods organisation is the only one who is actually paid to be in touch with the final arbiter of the organisation's success – the consumer. While everyone in the organisation would benefit from occasional excursions into the world of its product's end-user, the market researcher achieves this as a matter of professional competence. As such, he represents the consumer view within the organisation, because he is trained to be well informed about that view. This is particularly true for consumer-goods companies which have no other means of knowing how the average housewife, husband or child might react to the organisation's product offerings, because of the difficulty in maintaining contact with such big groups within the buying population. The same is not true, of course, for the industrial-goods company which sells to a very much more limited universe and which may well have personal contact with many of its major customers.

(7) *Marketing brakeman.* It is the function of marketing planning to examine market data, and to pull together a set of product plans based on the interpretation of the market-

place revealed in such data. While there may be agreement both as to the broad interpretation of the market-place and of the type of marketing activity required to maximise the opportunities shown, the extent of the success likely to be achieved through the action recommended is very much a matter of opinion. Ultimately all marketing plans are forecasts made about markets whose response is difficult to determine with any precision. Both the optimist and the pessimist are a menace to the organisation, but the ground between them is frequently exceedingly narrow: events will often show that a single marketing planner turns out to be an optimist about one product and a pessimist about another. (The problem is frequently not so much one of the personality of the planner, as it is one of the complexity and uncertainty of the market in which he is operating.) Under these circumstances the role of the market researcher as an arbitrator may be invaluable. He has the advantage – in judging probabilities – that he is unlikely to have any direct responsibility for the profits or losses generated by the marketing plan. He is thus, in theory, capable of greater detachment than the product planner, who *must* be single-minded and enthusiastic in his pursuit of his product's progress if he is to succeed.

The competent researcher will want to mitigate the optimistic excesses of the marketing planner's ambitions for the success of his products, as he would also want to leaven any undue pessimism. His criterion would always be his interpretation of market facts, allied to his experience within the organisation of what, in the past, has or has not been achievable. Relative to the marketing planner , or the organisation's senior management, he has no expansionary, or profit-centred, axe to grind. He is purely – if that is ever possible – a seeker after the truth. As a marketing brakeman he may serve an invaluable function within the organisation.

LIMITATIONS OF MARKET RESEARCH

Having examined the considerable benefits that accrue to an organisation in its use of market research, it is also necessary to point out that there are limitations in thinking of such a function as a panacea to all a company's ills:

(1) *Cost-effectiveness.* Date-collection through the processes of market research is expensive. A full-scale national investigation of a complex marketing problem, requiring the use of a long questionnaire to a large sample of the population selected on the basis of probability sampling, may cost £25,000 or more. The continuous shop audit of sales of one product group may cost £10,000 or more a year. To be well informed you have to be rich. And to be well informed is sometimes inefficient, if the additional profit that accrues as a result of the information does not cover the cost of obtaining such information. Hence the market-research function always has the responsibility of establishing the cost-efficiency of data, as well as of the latter's intrinsic value in the decision-making process.

(2) *Cost.* Most organisations have financial limitations as to the amount they can afford to spend on market research even when *it is cost-effective.* There is almost no marketing problem which would not derive considerable benefit from £100,000 worth of market research to improve the quality of decisions taken to solve such a problem, but very few organisations are rich enough to be able to undertake all the market research which they feel is needed.

This is made worse where the population of the market in which a company operates is small. It costs almost as much to carry out a market-research project in Switzerland as it does to carry out an identical project in the USA, where the rewards for market success may be considerally greater. This is primarily due to the immutable statistical fact that (as a generalisation) a sample required to represent the Swiss population needs to be as large as the sample required to represent the population of the USA: the accuracy of such samples are based principally on the size of the sample and *not* on the size of the population which they represent, other things being equal. Equally, of course, the cost of thorough market-research investigations into one market is no less expensive than a similar-quality investigation into a market ten times larger in value. Hence, within one country there are likely to be a large number of markets in which little research is carried out, because the potential revenue, even from a brand that is highly successful in that market, simply does not justify the cost of the research.

(3) *Time constraints.* It is not always possible to forecast all an organisation's forward requirements for market-research data. Unexpected problems often occur for which an immediate decision is required. While a good deal of value may be obtained from speedy market research in providing instant answers, a large number of marketing problems do not lend themselves to fast data-collection methods. Where delay in decision-making can clearly be seen as hazardous, market-research evidence in support of such decisions will simply have to be forgone.

(4) *Unsolvable problems.* There are a variety of marketing problems for which market research simply cannot provide any reliable solutions. For example, one of the problems of psychological investigations into the behaviour patterns of consumers is that they frequently indicate the existence of complex and profound psychological factors which are incapable of validation. Many human needs are established at a very early age in the upbringing of the child, and such needs stem from its response, at subconscious levels, to the factors in his or her upbringing. There are the strongest indications that many, if not most, human needs which determine what people buy are strongly influenced by subconscious motives that are largely unknown to the consumers themselves. Market research may postulate the existence of such influential factors but can rarely show positive proof either of their existence or of the extent to which they are significant factors in the population at large.

CONTROL DATA

Reference has been made throughout this book to the role served by marketing data in helping the organisation to determine the value and validity of its marketing strategy and tactics. While such data are available from a number of sources, the primary source of information, available to the marketing planner in his major and his routine decisions, is often that from the market-research function.

It is now necessary to examine the types of information he requires, and therefore the sort of market research that is carried out, to enable him to be more certain that the plans he recommends, and their execution, will serve the products and the company well.

1. *Product Research*

Although the success in the market-place of an individual product will rest on a multitude of factors, it is necessarily built on the basic foundation of its performance characteristics, actual and perceived.

If the marketing planner has no information about the product's performance characteristics, he will forever be uncertain how much the success or the failure of the product is due to these essential factors and how much is due to all the other criteria which apply in the market-place: price, distribution level, strength of the sales force, weakness of competitive marketing tactics, and so on. It is one of the important responsibilities of the market-research function to provide the organisation with some measure of the product's performance abilities.

The strengths and weaknesses of a product may be established in a number of different ways, and the research-orientated organisation will probably employ all such measures to establish a composite and comprehensive picture of the product in the market:

(a) *Product testing.* To justify the expenditure and effort required to launch a new product on a market, the organisation will certainly require some product testing in order to establish its consumer acceptance. A wide variety of techniques is used, depending on the particular type of product, the type of consumer who is considered as its potential purchaser, and the specific objectives sought with the particular product being tested. If the product is reasonably simple to produce as a pre-production prototype without incurring major capital investment to produce it, and if such a prototype is likely to resemble closely the product when it is manufactured 'properly', it will be possible to carry out a full-scale test of such a product in the homes of potential users – in order to submit the product to as realistic a test of its performance in 'normal' use as possible. Most products on the housewives' regular shopping-list come into this category, whereas most high-investment capital goods do not. It is easy to product test a new biscuit, impossible to product test a new car in this way.

Such product tests are not, of course, 'normal' in the reactions they draw from the sample of consumers who test the product: like a good deal of market research, the situation is made as realistic as possible but can never really escape from the abnormal circumstances surrounding any such test. It is partly for this reason that the testing of a product in isolation is considered to yield information of only limited use; wherever possible the testing will also include competitive products against which the test product may be compared. If the 'laboratory' qualities bias the results, they will be held to do so equally across all the products being tested under such experimental conditions and, as such, will yield far more valuable information. Thus a manufacturer of, say, a new toothpaste will want to test his product under the same conditions and with the same type of users as he will test the products he considers are likely to be the major competitors in the market-place.

Such product testing will also enable the manufacturer to resolve a multitude of alternative qualities he may be considering in the make-up of the product. In the case of toothpaste, he may be uncertain which of a number of alternative flavours available to him should be incorporated, or which of a number of cap designs, type-faces for the lettering on the pack, brand names, prices, the incorporation (or not) of fluoride, or special whitening agents, the addition of his company name as well as the brand name. By setting up a careful experimental design he may receive clear indications as to which is likely to be the most acceptable combination of these and any other factors he may wish to test.

The value of the product test is often crucial to the decision to launch new products. But it has other values to the marketing planner. Repeating such tests over time will indicate the change, if any, of the acceptability of the product to consumers. Such comparisons, both for his own product and those of his competitors, will enable him to diagnose with more certainty the need for reviving the fortunes of a flagging brand through fundamental formulation and packaging changes.

Product tests of new competitive introductions to the market-place will also minimise the shock of unexpected and unforecast competitive brand-share increases, and alert the organisation to the need to respond to such an introduction if the product test indicates its necessity.

Once a new product is launched, any subsequent changes being considered for the product – as to packaging or basic formulation – may require to be tested to measure the likely impact of such change on the existing market share of the product. Frequently such testing may be carried out 'negatively': where the change to the product is considered desirable by the organisation making it, but is thought unlikely to be noticed by the regular users of the product. The test will measure whether or not such a change is noticed, and may be considered satisfactory when it is not noticed. This would apply if, for example, the organisation wished to make product changes in order to reduce product costs.

(b) *Consumer use and attitude data.* The way the consumer uses a product very often reflects the way the consumer views the product in comparison with competitive products. One product may be considered as 'good enough for everyday use' where another is clearly recognised as 'for special occasions'. One product may be seen as a good gift for Christmas, whereas another may have very poor sales at Christmas time. One product may be acceptable for use by the family, whereas another may be considered too feminine to be useable by the men in the house, or too masculine for the women. The market researcher will try to establish a profile of usage of his organisation's products to throw light on the fundamental patterns of product acceptability. He will, of course, seek direct consumer references to such a profile by asking consumers how they use the product, and what they think of it. A combination of who uses the product, how they use it and what they say about it may provide a highly illuminating profile which will guide the marketing planner in his marketing strategy and product planning; it may determine the need to redirect strategy, to create new packaging and pricing policies, and to engender new and more fruitful advertising strategies, or, indeed, to seek to reduce activity and expenditure on a product which clearly is incapable of reviving and for which a replacement will have to be found.

(c) *Trade opinion data.* Generally the attitude of the distributing agents – factors, wholesalers and retailers, etc. – closely reflects that of the end-user. It makes sense that a very successful product, highly acceptable and desired by consumers, will almost inevitably command the respect and confidence of the distributors responsible for selling the product. However, there are a sufficient number of exceptions to this generalisation to ensure the value of market-research data on the opinion and attitudes of these distributors. For a variety of reasons, both rational and irrational, the distributors may develop a hostility towards an otherwise potentially successful product. The market researcher will provide a valuable service to the marketing planner in measuring trade attitudes.

2. *Measuring the Pipeline*

The progress of a product in the market-place is fundamentally determined by its performance capabilities, and measuring and defining such capabilities provides the organisation with powerful tools for marketing competence. But it does not measure the actual flow of the product in the pipeline – which starts on the factory floor and finishes, say, in the kitchen cupboard. Unless the product is virtually instantly perishable, there will always be a quantity of it moving from the factory to the wholesaler, from the wholesaler to the retailer and from the retailer to the consumer.

For some products – dairy and bakery products, for example – this pipeline is short, due to the rapid perishability of the produce. When the pipeline is very short, then that which leaves the source of production – the farm, the bakery – directly reflects the consumers' purchasing patterns. There is very much less need for assiduous measurement of the pipeline because its contents and meaning are self-evident.

It is also true that if the marketing planner is willing to wait long enough for a measure of the efficiency of his product in the market-place, he may obtain it fairly accurately over time: over a three- or four-year period, the direction and trend of a product's annual sales usually reflect consumer purchasing patterns.

Product audit: the basic model. The great majority of marketing planners work with products which do not have a very short pipeline, and neither are they willing to wait for time to judge their efficiency over a period of years.

In the short term the flow of product from the factory gates is too variable and crude a measure of consumer response and trade stocking policies, so some other measure must be found.

This may best be explained through an example for a hypothetical product. The example assumes that the product is sold directly to one distributive group, which in turn sells directly to the consuming public. Such an assumption is unreal but will simplify the explanation. Without the benefit of market-research measurements of his pipeline flow, the marketing planner for this product will only have available the following ex-factory sales figures:

Four-week periods

	Period						
	1	2	3	4	5	6	7
Sales (000)	115	90	148	153	126	140	129

Sales for this product up to the first period's data quoted had been about 120,000 units every four weeks; clearly something fairly startling is happening to the product. Starting in the third period there is a sudden upsurge to 148,000 units of sale. The planner is puzzled as to how to react. Clearly he must alert the manufacturing unit to increase production. But to what level – 125, 140, or 150 thousand every four weeks? The sales force will no doubt have reported considerable buoyancy in sales, and may have stated categorically that the market share has lifted dramatically. Everyone is in agreement about the necessity to increase production, but no one is certain as to what level. Capital for more machinery is involved, as is the need for taking on more labour and increasing warehousing space. An increase in marketing expenditure may also be on the cards, to sustain the brand's buoyancy and generally make the most of the apparent marketing opportunity.

Confronted with this situation the marketing planner may easily recommend a course that is damaging to the product and the organisation, for he has no means of knowing the scale of, and the reasons for, the change that has taken place.

Let it now be assumed that an audit of the distributive outlets through which the organisation is selling had been carried out over the time periods under review. In very simple terms such an audit will be based on a representative sample of the outlets of the distributor universe in which the manufacturer's product sells, and whose sales can be directly related to the sales of all such distributors. If the manufacturer's product sells through grocers, his audit will consist of a sample of all grocers, properly representative of large and small grocers, urban and rural grocers, counter-service and self-service grocers, Scottish, Welsh and English grocers, and so on. From the sales actually measured in the shops in the sample, an estimate can be made of total UK grocery sales – more or less accurately, depending on a large number of variables.

The actual audit will – again over-simplifying – be based on regularly measuring the stock of product available in the sample stores visited, and persuading the shops in the sample to keep accurate records of all deliveries of the product that they receive.

To simplify even further, it will be assumed that the product under discussion is only sold direct to the retailers represented by the audit panel of shops. This assumption avoids the vexed problem of having to consider an audit operation among wholesalers who will normally feature in the pipeline of consumer-goods operations. Table 16.1 shows what the audit reveals.

Table 16.1

	Period						
	1	2	3	4	5	6	7
Product X							
Consumer sales (000)	120	120	136	136	140	140	144
Stock (000)	120	90	102	119	105	105	90
Stock cover (weeks)	4.0	3.0	3.0	3.5	3.0	3.0	2.5
All products							
Consumer sales (000)	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Product *X* % share	12.0	12.0	13.6	13.6	14.0	14.0	14.4

Armed now with this information about the flow of product through the pipeline, the marketing planner still has problems, but they are now marginal, relative to his previous problems. From this information he will see:

(a) The reason for the lift in sales is due – as everyone suspected – to an increase in brand share, which has moved from 12 per cent of the market to 14.4 per cent in six months.

(b) He notes that the increase in sales is *not* due to a general increase in the whole market, which has stayed at a steady million units sales a period. This will certainly suggest that he may expect a sharp competitive response from those companies whose brands have suffered as a consequence of the increase in his product's market share.

(c) He also notices – with some consternation – that the increase in his product's consumer sales is *greater* than was indicated by the ex-factory sales: the trade's response to the improved brand share has not been quick enough to allow stock cover to keep pace with the new level of consumer 'offtake', i.e. the *stock cover*[8] has fallen from 4 weeks to 2½ weeks and the trade has, in fact, eaten into its reserves in order to meet the increased consumer demand. This implies that there is likely to be an increase in the number of shops who run out of stock entirely. This may suggest the need for a quick promotion to the trade to improve the level of stock, apart from any other activity that will take advantage of the improved situation.

(d) Finally, the marketing planner is in a more realistic position to assess the new production forecast he must give to the manufacturing unit. He will, of course, want to diagnose *why* the brand share has increased in order to know whether, and how, he might be able to maintain the new position in the market-place. Even without this information, his forecast of future sales rests on a steady trend of increased brand share and a new consumer 'offtake' of around 145,000 or more a period. The indications are that a 125,000 or even a 140,000 forecast of period sales would have led to continuing supply shortage and perhaps a decline in the brand share, due to supply problems rather than any change in consumer purchasing intentions.

The marketing planner is now also in a postion to be able to trace the direct conection between his ex-factory sales and those sales of the trade to the consumer.

To make this clear it is necessary to understand the precise meaning of the trade stock figures in the example. What Table 16.1 showed was, for period 1, that *during* the period consumers bought 120,000 units of the product, while the stock in the trade *at the end of that period* totalled 120,000 units. This latter figure, known as the *closing stock* for period 1, becomes the *opening stock* for period 2. To understand the movement of stock in period 2:

(i) The trade starts with stocks of 120,000 units: from the actual count of units made in the sample of shops, this figure has been extrapolated as being a best estimate of total UK grocery stocks of this product at the end of the first audit period.

(ii) From a check of the sample shops' records of deliveries, an estimate is now made that 90,000 units were received, *since* the last audit check, by UK grocers (this equals the *ex-factory sales*).

(iii) Hence 210,000 units were available for sale to consumers up to the time of the period 2 audit visit by the market-research auditor.

(iv) The auditor made a physical count of all product available at the time of his visit. Multiplied up to represent all grocery outlets, this 'closing stock' turned out to be 90,000 units.

(v) With 210,000 available for sale, and only 90,000 counted, clearly consumers purchased the difference – 120,000.

To understand the connection between the audit figures and the ex-factory sales, it is only necessary to carry out this exercise for each period (see Table 16.2).

Table 16.2

	Audit period						
	1	2	3	4	5	6	7
1. Stock from last period (*opening stock*)	*	120	90	102	119	105	105
2. Stock delivered since last period's audit	*	90	148	153	126	140	129
3. Total stock available for sale in this period (1 + 2)	*	210	238	255	245	245	234
4. Stock counted in this audit (*closing stock*)	120	90	102	119	105	105	90
5. Sales to consumers	*	120	136	136	140	140	144

* It will be realised that no estimate can be made for period 1 because the audit has not provided a closing-stock figure from the previous period.

All pipeline measurements are basically made on this pattern, whether the element being measured is a sample (panel) of grocers, cash-and-carry wholesalers or households.

In practice, of course, the organisation's ability to trace the whereabouts of all of its pipeline units with accuracy is much more limited than the example indicates. For one thing the cost of monitoring all the different types of distributors in an organisation's product pipeline is very expensive. For another, the measuring device is never complete because a number of important operators in the pipeline may refuse to allow market-research measures to be applied to them: for example, some very important High Street multiples have always refused the advances of market-research organisations (like A. C. Nielsen, who specialise in pipeline auditing) which have sought to audit sales through their outlets.

Despite the reservations and incompleteness of such measurements, the advantages that accrue to the organisation which attempts, through its market-research facilities, to measure the movements of its products through from the factory to the final consumer are considerable.

Only with some measurements of the kind indicated above will the market researcher be able to provide the marketing planner with a simple arithmetic model of the market, to serve as a basis for forecasts of future sales. From this knowledge – or, at worst, estimates founded on partial data – the marketing planner will want to see the implications of his future product plans on the research-based model. A typical example of this type of model is given in Table 16.3. In this example there is only one entirely certain figure, the ex-factory sales. The remaining calculations are speculative, but the model attempts clearly to relate unit sales to market share, total market sales, trade stock and changes in that stock.

The model shows quite clearly the assumptions on which the forecast and planning for 1980 are based and enables the management of the company to see the assumptions which will require to be changed if the ex-factory sales are felt to be either too pessimistic or too optimistic.

Using this pipeline model of the market, the marketing planner may even choose to put forward alternatives to the recommended ex-factory sales forecast to show the impact of changed assumptions on such sales. This is shown in Table 16.4. The alternative inputs into the arithmetic market model in Table 16.4 concern the likely growth of the total market, given as a *nil* growth or a 10 per cent growth against the plan growth of 5 per cent, and alternative brand-share figures of 13 per cent and 15 per cent against the plan's 14 per cent.

Table 16.4 shows the implications of these alternatives to ex-factory sales for the plan year (1980). The marketing planner will, of course, translate these sales into revenue and profit figures so that any decision will be taken with these in

Table 16.3 *Simple pipeline model of the market*

	1976 Actual	1977 Actual	1978 Actual	1979 Actual	1980 Plan
Total market					
Consumer sales (000)	10,000	11,000	11,770	12,950	13,600
% change in consumer sales	–	+10%	+7%	+10%	+5%
Product X					
% share of total market (unit sales)	10%	12%	12%	13%	14%
Consumer sales (000)	1,000	1,320	1,412	1,684	1,904
Trade stocks					
No. of weeks cover	6.0	5.0	5.5	6.0	6.0
Actual stock (000)	116.5	127.0	149.3	194.3	219.2
Change in stock (000)	–	+10.5	+22.3	+45.0	+24.9
Ex-factory sales (units 000) (consumer sales + changes in stocks)	–	1,331	1,434	1,729	1,929

Table 16.4 *Implications of alternative forecasts for product X*

	ALTERNATIVES				
	1980	Market growth		Brand share	
	Plan	Lower	Higher	Lower	Higher
Total market					
% change in consumer sales	+5%	Nil	+10%	+5%	+5%
Consumer sales (000)	13,600	12,950	14,245	13,600	13,600
Product X					
% share of total market (unit sales)	14%	14%	14%	13%	15%
Consumer sales (000)	1,904	1,813	1,994	1,768	2,040
Trade stocks					
No. of weeks cover	6.0	6.0	6.0	6.0	6.0
Actual stock (000)	219.2	209.2	229.3	204.0	235.2
Change in stocks (000)	+24.9	+14.9	+35.0	+9.7	+40.9
Ex-factory sales (units 000)	1,929	1,828	2,029	1,778	2,081

mind. He may also run many other permutations of alternatives, combining and interlocking variables as widely as is relevant to the decision to be taken.

The delineation of such a model not only serves as a basic construct of the market in which the product planner is operating, but it also serves the additional purpose of providing the market-research function with a reference point against which other research data may be verified; once such a construct appears to explain the variations found in ex-factory sales, brand share and stock measurements, it will help to measure the efficiency of consumer-usage data which may be gleaned through consumer surveys. This may be better understood through the use of an example.

Supposing product *X*, in the example used, is a lawn fertiliser. The company making product *X* may have commissioned a consumer-usage survey to establish important measures not obtainable through the outlet audit; it wishes to know the extent to which households use lawn fertiliser, and the level of consumption per using household. The consumer survey establishes the following data:

(i) 40 per cent of all households use a lawn fertiliser of some sort.
(ii) Product *X* accounts for 13 per cent of these households.
(iii) The level of consumption per household using product *X* is claimed to be an average of 4.0 units per year.

(To simplify matters it may be assumed that product *X* is only available in one size.)

The market researcher who has carried out the survey is aware that claimed usage, for a product that is infrequently bought, is often unreliable, and he knows that it is important to establish the actual consumption level with accuracy. Assuming that his pipeline model of the market is accurate, some quick calculations will confirm his fears as to the unreliability of the 'claimed-usage' data:

1. Total number of households	18.4 million
2. Number of households using lawn fertiliser	40 per cent of 18.4 million 7.36 million
3. 13 per cent of these 7.36 million households claim to use product *X*	957,000
4. At a claimed annual consumption of 4 units per year for product *X*, we have total consumption	3,828,000

Clearly the level of product *X* usage provides a figure which cannot be supported by the pipeline model, and the market researcher will have to reconsider the means by which he obtains such usage data. He may experiment with various techniques until there appears to be a close convergence of the two sources of information. The pipeline model has helped to check the validity of his consumer survey, and, of course, vice versa.

This example highlights an important fact about the use of market research within the business organisation: the more research is undertaken, the greater the opportunity for cross-referencing to other pieces of research and the greater the reliability of the whole research programme. Greater reliability inevitably confers on the marketing planner the benefits of a reduction in the number of incorrect decisions, and a cutting down in waste of effort and money.

Product audit: measuring sales effectiveness. It is clear that the provision of a system of auditing the flow of product from the factory gates to the point of consumer purchase provides the organisation in general, and the marketing planner in particular, with a very powerful tool in his analysis of the market-place.

When such an audit is based on sales outlets – some very valuable audits are based on consumer households – a good deal of additional information is available for further enhancing marketing's control over the competence of its activities. These have already been referred to in the examination of sales-force objectives in the product plan. They need now to be examined in somewhat greater detail:

(a) *Distribution and stock analysis.* In the marketing of consumer goods the organisation's ability to obtain a high level of distribution of its products is of considerable importance in achieving the maximum market share of which the products are capable. Essentially this fact is based on the reasonable belief that only a very limited number of brands will command sufficient loyalty to ensure that the consumer seeking them will trail from outlet to outlet in his or her determination to buy those brands, and no other, spurning all competitive products.

If a product is launched in the expectation that it will achieve a 10 per cent market share, such an expectation is usually based on the assumption that *it will do so with a high level of distribution.* If the product achieves only half the level of distribution planned for it, it will need to achieve *double the expected share in those shops in which it is available* for it to obtain its intended full market share.

As a useful generalisation, a product which achieves a significantly poorer level of distribution than existing major brands in unlikely to be able to maximise its market potential. While it must inevitably be true that some of the outlets which fail to stock the product would add little to the product's sales – a proportion of the outlets which fail to stock a product will always cite the likelihood of poor sales of that product as the reason for not stocking it – a product which is generally successful in the market-place will tend to be successful in the great majority of the nation's potential stockists. (This is not to ignore the importance in some markets of strong regional brands.)

The provision of a store-audit operation makes available three types of information about distribution:

(i) *In-stock* data: the percentage of shops (within the universe being audited: chemists, grocers, etc.) which *at the time the audit was carried out had product available for sale.* Such information is the key distribution figure for the marketing planner; the information will, of course, be available in relation to major competitive brands he may wish to monitor, as well as for his own brands.
(ii) *Out-of-stock* data: the percentage of shops which *did not have stock available at the time the audit* was carried out *but which normally do carry stock.* This may be defined differently according to the specifications of the audit operation: usually, 'normally stocking' will be measured as an outlet which ordered or had stock at some time or other during the current audit period.
(iii) *Not stocking*: those which had *no stock available at any time during the period audited.*

Armed with these data, the marketing planner will be in a strong position to follow distribution trends in the market-place, both for his own brands and for competitive products. Such information will tell him:

(i) *Maximum distribution.* The audit will provide a figure for the distribution level of 'any brand' being stocked, among the universe of shops, and as such will show the absolute maximum target which the sales force could reasonably aim to achieve, if distribution saturation of the universe were required. In practice, there are very few markets in which it is possible for one product to achieve 100 per cent distribution of all outlets stocking one or more brands; even the best-known household names in the biggest markets find it too costly to aim to achieve such distribution saturation on a continuous basis.

(ii) *Stocking trends* for his own and competitive products: which products are building distribution and which are losing it.

(iii) *Out-of-stock trends*: that is, the extent to which his own products and those of competitors are maintaining in-stock levels. This trend is often markedly affected, as could be expected, by the amount of stock cover available in the shops, i.e. the number of weeks or months of stock *at current rates of sale.* For most markets there is a minimum level of stock cover, falling below which inevitably leads to an increase in the degree to which outlets are out of stock.

(b) *Shop and regional analysis.* If the audit is based on a sufficiently large sample of outlets, the information available may be analysed by shop size and by region, providing a clear analysis of the strengths and weaknesses of sales-force activity. In order to maximise the usefulness of geographic diagnosis, the market researcher will try to ensure that the audit regions conform to those of the sales regions, so that the audit is, in effect, a precise measure of the efficiency of sub-units of the selling operation, and may serve to stimulate regional responses to localised selling problems.

The facility to analyse sales effectiveness regionally is also very important in providing the organisation with the means of measuring regional test markets for new products, on test prior to a national launch.

The importance of analysis of the audit data by type and size of outlet hardly requires emphasising: the ability to pinpoint selling-effectiveness problems as between major and minor High Street operators is vital to the organisation's marketing plans.

(c) *Price and display analysis.* The fact that the audit research operation seeks to measure the flow of the product pipeline through a sample representative of the universe of outlets clearly means that *any* information concerning such outlets will be representative. Hence the audit operation allows for special investigations into outlet activity, as well as the continuous measurement of product movement.

In this area the audit may be of great value in providing regular information about actual product pricing to the consumer at point of sale, giving the marketing planner constant data on competitive pricing policy. Equally, the marketing planner may be concerned about his product's merchandising effectiveness in comparison with competitive products: that is, the extent to which his product obtains advantageous display on the shelves of the outlets stocking them.

Product audit: the household. Measuring the flow of product from the factory gates to the point at which it is sold to the ultimate consumer – for consumer goods this nearly always means the retail outlet – provides all the very considerable benefits which have been discussed above. There remain, however, certain important pieces of information which such auditing fails to provide and which can only be provided by undertaking a physical audit of consumption at the point at which it occurs, the household:

(a) *Brand loyalty.* Retail audits can give the marketing planner no information about the patterns of loyalty for any one product: the number of buyers who always buy a particular brand, the number who frequently buy, the number who occasionally buy and the number who never buy. At first sight it may appear simple enough to rectify this shortage of information by carrying out a once-off survey in which consumers are asked about their purchasing habits. Such surveys produce notoriously unreliable information. In the first place many consumers will find it difficult to remember their buying patterns with the necessary accuracy. This, of course, depends on the product: a man is unlikely to be vague about the last two or three cars he bought, but he is likely to be unreliable about the brands of razor blades he has bought over the last six months. Second, even where memory factors are not very demanding, many emotional factors make it likely that the answers are likely to be unreliable – for many markets and many products, because so many products involve feelings of status, social acceptability, masculinity/femininity, etc. Respondents, quite simply, will tell lies (black as well as white) about what they consume.

To obtain more accurate information about such patterns of usage will therefore require the auditing of products in the home.

(b) *Larder stocks.* Most manufacturers traditionally ignore changes in 'larder stocks' as being too small to matter and too expensive to measure – relative to the information benefits. There are probably good grounds for believing that the changes in the extent to which housewives increase or decrease the stock they keep at home has little effect on the manufacturer's ability to measure the pipeline efficiently. However, when it is deemed important to measure larder stocks – for example, when a producer, forecasting a future shortage of a widely bought commodity such as sugar, will want to measure the dramatic changes brought about in the pipeline as a result of consumers hoarding the product – the retail audit can provide no help, and only the household audit makes such a measurement possible.

(c) *Consumer characteristics.* It is frequently valuable to the marketing planner to know the characteristics of the users of his, and his competitors', products. The household audit enables such an analysis to be undertaken in depth, if the product is one which is used by the household rather than by one member of it. It enables, for example, the manufacturers of detergent powders and washing-up liquid to examine the type of household which uses one brand rather than another: analysing the usage data by age, class, number and age of children, type of washing-machine used, extent of brand loyalty, voting characteristics, perhaps even personality types, and so on. However, this type of information – unlike that of brand loyalty – is also readily available from *ad hoc* consumer surveys, and would not, of itself, justify the need for data from a household audit.

(d) *Home sales.* The household panel may be the only reliable way to measure brand-share data in those markets where a significant proportion of the market is held by products which, bypassing the retail distributive system, are sold directly to the home, either via door-to-door selling or mail-order marketing.

Other than these measurements which are specific to the household audit operation, such an audit will also produce brand-share information, in much the same way as does the retail audit. It cannot of course throw any light on retail distribution or stock levels.

Probably the major disadvantage of the household audit lies in the fact that the sample of homes required to provide really reliable purchasing data on a regular basis has to be large to be useful. It has to be very large indeed in order to equal the volume of transactions being measured through a retail audit. The arithmetic here is simple: the average grocer in the United Kingdom caters for about 200 households,[9] and a manageable and effective grocery audit could be expected to be based on upwards of 600 grocers, thus accounting for an audit of the actual grocery purchases of over 120,000 homes. The cost of running a household panel of 120,000 homes would be astronomical – even assuming that it could be achieved.

3. *Measuring Usage and Attitudes*

A considerable contribution to the control needs of marketing planning is made by the market researcher in providing detailed and regular information on the flow of product from the factory to its final destination. When such data are allied to the facts provided through a comprehensive programme of product testing – already discussed – the marketing planner has the beginnings of a comprehensive set of tools with which to analyse his market-place. There still exists, however, a number of major areas which remain uncharted: the patterns of usage and the profile of attitudes, found in the market-place, concerning the planner's products.

While a programme of product testing will establish the potential strengths and weaknesses of the product among the consuming population, it will not provide information as to the way the product is actually used in the market-place, or indicate consumer attitudes to all the diverse elements of the market as it exists.

It has to be repeated that the product test, as a reflection of the market situation, is inevitably artificial and unlikely to mirror normal market circumstances with any reliability and precision.

The data required by the marketing planner on usage of, and attitudes towards, his products and his markets are too voluminous to be covered here: it would require a few dozen pages just to list the questions that normally arise in the course of a detailed analysis of any one market. Instead, an examination of the key data can be made under some general headings:

(a) *Market definition.* Any survey of product usage will normally provide a definition of the market: the usage universe and its description in demographic and, perhaps, psychographic terms. Such an examination will indicate the boundaries of marketing-planning possibilities by establishing the numbers involved – millions of users, etc.

(b) *Motivation.* The marketing planner will want to be as well informed as possible as to all of the elements which may be unearthed in an examination of the attitudes and psychological responses to the product group and to the specific brands being marketed, among both consumers and non-consumers. For some products the psychological factors involved may be relatively uncomplicated, but for many others such factors are complex and of fundamental importance to the successful marketing of the product.

(c) *Awareness.* The level of awareness of a particular product, and of its characteristics and particular benefits, of the claims made for it by the manufacturers and of awareness of that product's competitors may profoundly affect the product's market performance. As such, the marketing planner will require measures of these awareness levels of his product among potential consumers.

(d) *Purchasing.* The marketing planner will wish to know not only who buys the product but who actually makes the decision concerning that purchase in principle ('Let's buy a car') and specifically of that particular product ('I think we ought to get a Ford'). He will also want to know how shopping patterns dictate the source of purchase. He would benefit, additionally, from an understanding of all the factors that affect the purchase – advertising, promotion, display, price, packaging, word-of-mouth recommendation, social pressures, and so on.

(e) *Usage.* To support marketing decisions, the market researcher will need to provide information concerning the usage of the product: who uses it, what it is used for, and the intensity of usage ('heavy/medium/light users'). Depending on the complexity of the product, there may even be a need to carry out observation research in which the usage of the product comes under direct scrutiny, to establish, for example, the value of instruction leaflets or to pinpoint areas of product abuse, the results of which may affect consumer satisfaction with the product.

Much of the work involved in the provision of this information will be obtained through *ad hoc* surveys – one-off investigations. There is, however, considerable value to be obtained in establishing some basic usage survey on a regular basis, perhaps once or twice a year, geared to enable the marketing planner to follow trends in usage over the years. The same is true for other areas of investigation: awareness studies that report on company, brand and advertising awareness, product image studies that follow the changing shape of a product's image as it moves from its launch phase into maturity.

It must be becoming clear to the reader that much more logic than money can be found to undertake the market-research work required to answer these vital and seemingly endless questions. This, precisely, is the primary market-research problem for most data-conscious companies. Consequently the marketing planner has the unenviable task of determining which questions must be answered and which, for lack of unlimited funds, will have to remain unanswered.

4. *Measuring Promotional Activities*

One major responsibility that normally devolves on the market-research function is that of developing the analytical machinery that makes possible the measurement of quantified objectives laid down in the organisation's product plans.

Such objectives will necessarily be established for individual promotions, for individual products. Advertising campaigns will contain stated objectives, in terms, for example, of the development of consumer awareness of the product and its advertised claims. Consumer promotions may be targeted to increase user trial of the product. Trade promotions may be structured to increase levels of distribution, or stock, to quantified targets. For such objectives to have meaning the market will need to be measured to establish the extent to which they have been achieved.

Some of these promotional objectives can be measured through the availability of existing continuous or routine market-research survey and audit work; a shop audit is perfectly suited to measure the impact on brand share, market size, distribution levels and changes in stock levels of individual trade and consumer promotions. Other promotional objectives may require special measuring devices before any judgement can be passed on the effectiveness of such promotions. For example, a promotion geared to increase brand-name awareness will need to be measured by establishing levels of awareness both before and after the promotional activity. There may, in fact, be a need to measure the effect over a series of special surveys, in order to establish whether the promotion resulted in a temporary or a more permanent effect. It follows that the marketing-planning and the market-research arms of the marketing function will liaise in devising a programme of research designed to measure the promotional competence of the product plans.

There arises a major constraint in the application of such measurements – from the factor of *cost-efficiency*. Many consumer promotions, for example, seek to attract new users to the product with a view to converting them, on a long-term basis, to permanent or (at least) more frequent usage of that product. To measure this effect requires that a very large number of purchasers of the promoted product be identified and then (later) interviewed in order that their 'conversion level' may be precisely measured.[10] In cost terms and in research technique terms the method that must be used is frequently both very difficult and very expensive.

One promotional area which attracts a considerable level of market-research activity is that of advertising, which is not surprising in view of its importance to so many consumer-goods marketing plans. The control exerted through market-research data in this area has already been discussed.

5. *New Products and Markets*

The contribution made by the market-research function in its provision of information concerning new markets the company may wish to enter and new products it plans to launch is not markedly different in type from its contribution to the company's existing business – but it is different in emphasis. The volume of information tends here to be greater, not only because there has been no history of data-collection on which to fall back, but also because the element of risk to the organisation is a good deal greater in such ventures, and hence there is a need for greater reliance on the information obtained.

To combat the lack of historical knowledge available concerning a market which is about to be newly entered, the market researcher will have to rely more on published and purchasable data than is normal for the company's existing brands. He will also be involved in the construction of a comprehensive and highly compressed programme of product testing, advertising testing, package testing, price testing, name testing and a variety of other activities planned to reduce the possibility of a new-product failure.

In his work on new products and markets the market researcher will almost certainly have to be involved in recommending suitable test markets, should the product plans require such testing. He may well be further involved in such test markets through the need to set up temporary measuring devices – audit panels, for example – required to measure the progress in the test market of the new product.

Finally, in an organisation where the market-research arm of the company is expected to be closely and responsibly involved in marketing decision-taking, the views of the researcher on the outcome of the test market as it affects the decision to launch the product nationally, retain it in test market for further testing, or withdraw the product from the market, will be crucial to that decision.

Part Three

Postscript

Chapter 17

Brand Management and the Future

Despite doubts occasionally expressed both inside and outside the business community about the value of the *brand-management system*, its use is likely to become increasingly widesspread as its benefits become increasingly visible, and as market competitiveness becomes both more intensive and more international. Ultimately, support for such a system of planning and control over a firm's market offerings has been similar in kind to the support that has been given in the past to any other systems which have helped to reduce chaos and uncertainty, introduce greater order and provide a more stable basis for the making of more competent management decisions: support for such simple elements as effective filing systems to such complex elements as improved managerial accountancy techniques. Used competently the brand-management system is simply a practical means of increasing the reliability of the flow of corporate revenues.

It would be foolish, however, to assume that the system is unlikely to change or is incapable of improvement. The system is certain to alter in shape as more companies learn to take advantage of its benefits, and as companies currently using it learn to overcome its problems.

Despite the very real hazards inherent in forecasting future change, it may be useful to speculate on possible trends which may develop in future years, and this we now do.

IMPROVING THE DATA BASE

The heavy reliance of the brand-management system on hard market information is bound to continue. As the business organisation moves increasingly towards more sophisticated management of its marketing function, so the data needs of the organisation will grow. Greater pressure will be placed on data-finders to produce preventative data – information which gives warning of impending problems – rather than on curative data, which seek to diagnose the cause of the problem once it has occurred.

With the growing sophistication of the electronic industry, the ability to produce continuous and analytical data at the touch of a button is growing by leaps and bounds – and increasingly cost-effectively. The brand manager of the future may expect to get more information, more quickly and with much greater flexibility of analysis. He will increasingly rely on stored data, instantly available as and when they are required. It follows from this that his training will need to incorporate a thorough understanding of the basics of computer technology, of its capabilities and of the programming required to meet his needs.

INCREASING CENTRALISATION OF MARKETING CONTROL

Companies which currently employ brand-planning functions vary greatly as to the comprehensiveness of marketing responsibility they are willing to delegate to their brand managers. In some companies such activities as advertising, trade promotion planning, product public relations and product development are considered to be co-ordinated with, but not the responsibility of, the brand manager. Logic dictates that in the future all such activities will tend to gravitate towards the brand manager, whose planning and control activities over his products are radically reduced if these are excluded from his domain.

CHANGES IN THE MARKET-PLACE

A number of changes in the market-place are already altering the planning and control activities of the brand-management system, and will do so increasingly over the next few decades:

(1) *Distributors.* Within the consumer-goods markets the continuing growth in the power of some of the major distributors – wholesale groups and High Street multiples, for example – is applying ever greater pressure on manufacturing companies: pressure to reduce prices, pressure to write product marketing plans which are directly geared to the needs of the distributors, pressure to supply own-brand products, and so on. The brand-management system will continue to need to adapt to such pressures, treading a dangerous line between co-operation and capitulation.

(2) *Legislative and consumerist pressures.* Society, either directly through its legislative assemblies (Parliament, the EEC) or indirectly through its consumerist pressure groups, is having an increasing effect on the planning activities and options of the marketing planner. Such effects are bound to grow in the future.

(3) *Changes in selling/distributing/consumer buying.* The current systems in the chain of selling, distribution and consumer purchasing are replete with gross social inefficiencies. Too many salesmen in too many sales forces are selling too many small quantities of goods, making too many wasteful journeys to too many distributors that exist because too many consumers require to make too many shopping trips to buy small quantities too frequently and too locally. All this is apparently convenient to the consumer – which is why it exists – but it is in fact grossly ineffective in terms of their 'real' costs. The technology already exists which could dramatically change these patterns of behaviour: more people have the transport to buy large quantities, the cost-efficiency of storage systems at home can be shown to save money in the long term, given careful planning and consumption, and most products may now be found in a version (frozen, freeze-dried etc.) which will enable shopping trips to be made much less frequently. Time will bring about the social changes which will make current shopping habits – and current shops – seem very archaic. The impact on the brand-management system will be considerable. A much lower buying frequency by the consumer (once a month?) will alter the relative importance of packaging, pricing, promotion and brand loyalty. A much smaller number of distributors will

increase still further the power of those who survive, and their demands will require a flexibility and a speed of response on the part of the marketing-planning function which barely exist at the moment. Distribution systems are also likely to change sharply. The advent of 'TV shopping' – selecting, ordering and paying for consumer goods via the television set in the sitting room – will have even greater effects on the tried-and-trusted promotional and product traditions of existing markets.

MARKETING PERSONNEL

The organisational requirement that brand managers should exhibit high levels of skill in a multitude of areas, as befits their generalist role, is likely to become more marked. As markets become increasingly more competitive, and marketing errors increasingly costly, competence in the role of the brand manager will assume an ever-growing importance to the health of the company. To the growing anxiety stimulated by this fact, companies may react in one of two ways: they may increase the number of checks and constraints on brand-manager responsibility and activity; or alternatively companies may start to insist that no one may be given the post of brand manager' without proven management ability via success in other fields. The tendency to date has been to the former system, recruiting able but very young executives (generally straight from university) and applying restrictions and controls via a hierarchy of group brand managers, marketing managers, plus bevies of advisory specialists to minimise the chance of serious error and poor planning and control. Such heavy constraints tend to breed frustration and a loss of feeling any real responsibility for the marketing plans of the products over which they have apparent control. The alternative system, of making the 'product champion' post of brand manager the purview of more senior and proven management, has much to recommend it, and may well be the route increasingly followed by marketing companies.

There will always be companies for whom the brand-management system holds no advantages, now or in the future. However, relatively few companies may claim administrative or marketing logic as their reason for choosing not to apply such a system, while more would have to admit baldly to a distaste for the system *per se.* One problem is that most companies like to make a clear distinction between their specialist line-managers and their generalist 'top management', while the brand-manager system cuts across that sharp division. The brand manager is a specialist but not a line-manager (in the sense that he has no department or section to run). He is also a generalist but not in 'top management'. To the companies who employ the brand-management system, time and experience have made such arguments seem arcane.

Glossary of Terms used in Marketing Accountancy

CONSUMER PRICE The same as *retail selling price*, i.e. the price at which the consumer buys from the outlet.

COST-OF-GOODS A term frequently used to mean the direct *manufacturing* cost of a product, to distinguish it from non-manufacturing direct costs like, for example, product advertising.

COST VARIANCES The difference between forecast and actual costs over a period of time, e.g. the variance between the *standard cost* of a product or process and the actual costs incurred.

DIRECT COST A cost, incurred in making, selling or distributing a particular product (brand), which is readily assignable to that product, e.g. the cost of materials which go directly into the manufacture of a product every time it is made, the cost of the labour involved exclusively in the making of that product, and so on. Many costs cannot easily be assigned to products, e.g. the managing director's salary, the cost of running the works canteen, etc., and are categorised as *indirect costs.*

GROSS REVENUE This is a refinement of the term *sales revenue.* While the term *revenue* is useful as a shortened form for the concept of 'money-earning', it is in practice too loose a term when it comes to a proper understanding of the revenue-earning function. All revenue can be classified as either *gross* or *net. Gross revenue* is the revenue that an organisation *would have* received from its customers in payment for its goods and services *if* no promotional reductions to the price were ever given as discounts. For example, if a company sells a product at its standard list price of £10, less a £1 discount for prompt payment (or as a promotional incentive, etc.) then the gross revenue is £10 and the net revenue is £9, which is the cash it will actually receive in payment for that transaction. The importance of the gross revenue concept is that it enables an organisation *always to measure its total marketing expenditures* quite separately from the cash which flows into the organisation. Giving away discounts which reduce the cash to the company is as much a marketing expenditure as its advertising costs or the cost of its sales department.

INCOME Properly speaking, the profits made by an organisation. Frequently used as a synonym of *sales revenue.*

INDIRECT COSTS Also known as *overhead costs*, indirect costs consist of all those costs which are either very difficult to assign to particular products or for which the effort of doing so is considered more costly and more trouble than is justifiable. Indirect costs may be *allocated*, more or less arbitrarily, to individual products, should there be an advantage in doing so.

MANUFACTURER'S SELLING PRICE (MSP) The price charged by the manufacturer for his goods or services. In consumer-goods companies this is usually charged to the middlemen in the distribution chain – wholesalers, agents, factors or retailers (if the manufacturer sells direct to retailers). By virtue of the fact that most products are sold on a *scale* of prices (the bigger the middleman, the cheaper the price from the manufacturer), the MSP will frequently refer to the *average selling price*, i.e. the average revenue which the manufacturer obtains bearing in mind the volume he sells at the different scale prices.

MARKETING CONTRIBUTION For any one organisation, this is that point in a revenue account (profit and loss statement) *above which* lies the particular financial responsibility of the marketing function and *below which* the marketing function can have little responsibility. For many organisations in the consumer-goods field, the marketing function is considered to have considerable responsibility for, or involvement in, revenue, cost-of-goods and all marketing expenditures, but little responsibility for manufacturing, administrative and general management expenditures. Such a division of the revenue account gives the marketing function its set of specific profit 'contribution' money-targets which it is expected to achieve through the promotional efforts of the function – selling, advertising, etc.

MARK-UP The *increase* applied to a *buying* price in order to arrive at a *selling* price. For example, if a distributor buys at £1 per item and decides he wants a 50 per cent mark-up, he will increase the buying price by 50 per cent (by 50 pence) and sell it at £1.50.

NET REVENUE The *cash* which flows into the company coffers as a result of its sales of the goods and services it markets. (See also *gross reveune.*)

PERCENTAGE MARK-UP See *mark-up.*

PERCENTAGE ON BUYING PRICE The same as *mark-up.*

PERCENTAGE ON SELLING PRICE Many distributors, in determining the *trade margin* they require, make the decision on the basis of a percentage of the price at which they sell. A distributor who buys an item at £1 and wishes to earn a 33⅓ per cent margin on his selling price, will sell the item at £1.50: the 50 pence margin he requires is one-third of his *selling price* of £1.50. His buying price is, in other words, 66⅔ of his selling price. A 33⅓ per cent margin on selling price is the same as a 50 per cent mark-up. (See also *mark-up.)*

RETAIL SELLING PRICE (RSP) The price charged by the retailer to the customer who buys from his outlet. In looking at the RSP for any one product, this will, in fact, be an *average* retail selling selling price, bearing in mind that different outlets may well sell at different prices.

REVENUE This is the money a business obtains in exchange for the goods and services it sells. It is often referred to as *income,* though many accountants restrict the term 'income' to the profits a business makes, i.e. what remains of revenue when all expenses, taxes, etc., have been paid. More fully, the term is *sales revenue*: this is often also abbreviated to the term *sales.*

REVENUE ACCOUNT Also known as the *profit and loss account,* this is a statement of the flow of revenues and expenditures of a company *over a particular period of time* (one month, one year, etc.). It is not to be confused with the *balance-sheet*, which is a type of account which reports on the assets and liabilities of an organisation *at one particular point in time.*

SALES This is a particularly loose term in the verbal armoury of the marketing operator. *Sales* may mean:

1. *Sales revenue*, net or gross – measures of sales *value.*
2. *Sales units*, the number of *items* sold as against their value.
3. *The sales department*, the function responsible for achieving company sales.

SCALE PRICES Most manufacturers will apply different prices, for any one particular product, to different members of their distributive chains: that is, for example, a manufacturer will quote a lower price to a major multiple than he would to a village corner-store. The price list of a manufacturer will thus have a *scale* of prices. The primary factor which qualifies a distributor for a particular point on the scale of prices is that of volume of business, measured either in *quantity* or *value.* Other factors are the *type* of distributor – wholesaler or retailer – and the *power* of the distributor.

STANDARD COSTS The *direct manufacturing costs* of a product – raw materials, labour, etc. – may fluctuate from period to period sufficiently wildly as to make pricing and profit-making decisions meaningless at any one point in time. To avoid this problem, many companies have evolved a system which 'smooths out' such variations by averaging their forecasted effects over time, thus providing planners with a 'standard cost'. Subject to rules which allow for the changing of such standard costs (should large changes in real costs take place) a standard cost will be charged to a particular product, regardless of these temporary variations, allowing for saner and more tranquil management decisions. *Variances* against forecasted standards need to be monitored continuously, in order for the system to work safely and usefully.

TRADE DISCOUNT A reduction in the manufacturer's selling price given by the manufacturer to a member of his distributive chain, in return for a benefit to the manufacturer, e.g. for prompt payment, guaranteed price-cutting, guaranteed greater product display, inclusion in the distributors' local advertisement, and so on.

TRADE MARGINS A trade margin is the revenue available to distributors. It is, of course, the difference between the price at which the distributor *buys* and the price at which, he *sells*. (See also *mark-up*.)

TRADE TERMS The price terms under which the manufacturer operates with his distributors. It is also used by a retailer, for example, in describing the terms under which he buys from his wholesaler.

Notes

1. Many of the terms used in business are ambiguous and vague. 'Forecast of sales' may mean either the forecast of *items sold* or *the revenue* expected from selling them. It is better to differentiate these meanings by a reference either to 'forecast of units sales (items sold) or 'forecast of sales revenue.

2. Marketing planners responsible for planning marketing for individual products have a variety of other titles – brand managers, marketing managers, etc. For the sake of standardisation, they will from now on be referred to as *product managers/planners.*

3. The product manager may also take the precaution of requiring that market-research tests be undertaken to establish some level of consumer response to the change being planned.

4. For a comprehensive examination of key consumer promotions, see Davidson (1972, pp. 184–92).

5. Also called the *profit and loss account, or income statement.*

6. For a more detailed approach to determining the size of a sales force, see Semlow (1979) and Kingwell (1974).

7. This makes the assumption that if *all* the product-plan objectives are met, the achievement of the forecast revenue follows automatically. In practice, there are too many exceptions to this maxim for it to be a universal truth. It is possible, for example, that excessive optimism on the part of the planner will result in the establishment of a whole set of objectives, the fulfilment of all of which would fail to result in the associated forecast of sales revenue.

8. *Stock cover* can be described as the quantity of unsold stock, measured in terms of the *time* such stocks would last, at *their current rate of sale.* For example, in period 1, 120,000 units were available in stock. As 120,000 units had been sold

in this four-week period, the stock represents four weeks' sales.

9. An approximation, based on estimates of about 90,000 grocers and roughly 18 million households in the United Kingdom.

10. This is a gross over-simplification of a complicated technique, which (among other factors) involves obtaining a *control* sample of people who have *not* bought the promoted pack, in order to provide a comparison base against the 'promoted' sample.

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